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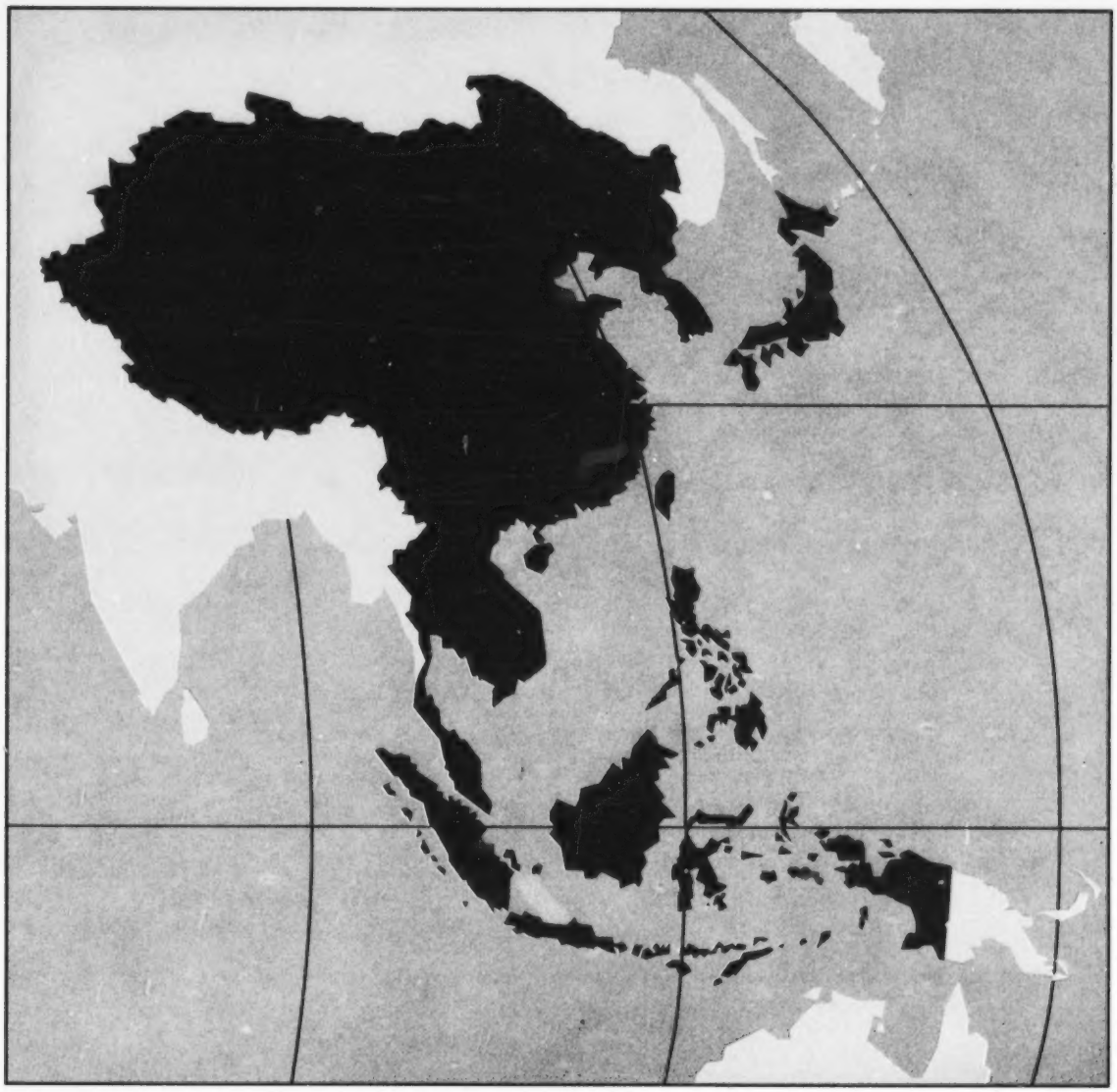

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— ROK Government Puts Brakes on Samsung Auto Venture

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The **PACIFIC RIM ECONOMIC REVIEW** is a subseries of the Survey Series. The **REVIEW** is published biweekly by East Asia Group and contains a selection of reports on economic topics appearing in foreign newspapers, magazines, and journals, as well as radio, television, press agencies, and data base sources, primarily from the countries of the Pacific Far East. Material is presented alphabetically by geographic area, and then arranged alphabetically by topic where possible. All articles in the **REVIEW** are summaries of original foreign media reports and are presented in two formats: "Feature" articles, which either summarize a lengthy report from a single source or summarize media reports on the same subject appearing in more than one foreign media source; and shorter summaries of news reports, usually from one source.

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1 June 1994

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JAPAN

Auto Industry

FEATURE: Auto Companies, Parts Suppliers Taking Advantage of NAFTA

Nissan Motor Co., Honda Motor Co., and their respective parts suppliers are taking steps to increase local production and further integrate their North American operations. According to media reports, the companies are trying to lower costs, given the appreciation of the yen, and are also responding to incentives provided by the North American Free Trade Agreement (NAFTA) to integrate production among their factories in Canada, Mexico, and the United States.

High Yen, NAFTA Spur Higher Local Content

Japanese automobile manufacturers and auto parts makers with production facilities in North America are rapidly increasing the ratio of locally made parts. According to the 21 April NIKKEI SANGYO SHIMBUN, their general aim is to avoid losses stemming from appreciation of the yen, but the "underlying aim" is to profit from the "tariff-free nature" of NAFTA. Previously, the companies were motivated to increase local content levels to "ease" economic friction between Japan and the United States, but according to NIKKEI SANGYO, their actions now have "strategic meaning."

NIKKEI SANGYO stated that "each company is strongly conscious of NAFTA" and is anticipating the benefits from the lowering of tariffs between Canada, Mexico, and the United States. In particular, the firms are looking to substitute "high priced imported goods" with locally produced parts that will cost less due to favorable exchange rates and lower tariffs. NIKKEI SANGYO reported that several companies are even looking to reduce production costs in Japan by exporting "suitable" parts from North America to Japan. In addition, Japanese auto parts makers want to remain price competitive with their U.S. competitors for orders from the U.S. "Big Three" automakers, which are increasing output now that U.S. auto market has recovered.

Nissan at the 'Forefront' of Integrated Production

According to the 21 April NIKKEI SANGYO, Nissan is at the "forefront" of other Japanese automakers in localizing production in North America and is urging its affiliated parts makers to take advantage of NAFTA. The 11 May NIKKAN KOGYO SHIMBUN reported that Nissan is aggressively promoting both the production and export of autos and parts from its production bases in the United States and Mexico to regain price competitiveness affected by appreciation of the yen.

In the United States, according to the 29 April NIHON KEIZAI SHIMBUN (NIKKEI), Nissan has decided to increase auto production by an average of 10 percent to over 440,000 autos in FY94. Nissan Motors Manufacturing Co. (NMMC), Nissan's U.S. production base in Tennessee, will soon reach full capacity production for the first time since it was established in 1980. NMMC currently produces two passenger vehicles, the Altima and Sentra, and one

commercial vehicle, the Nissan Truck. According to NIKKEI, NMMC will increase Altima production from 161,000 units in FY93 to 180,000 in FY94, a 12 percent rise; increase Sentra output from 139,000 to 140,000, a 1.0 percent increase; and expand Nissan Truck output from 100,000 to 120,000, a 20 percent increase.

Nissan is trying to bolster local production by increasing shipments from the United States. The 14 April NIKKAN KOGYO SHIMBUN reported that the company will stop exporting Nissan Trucks from Japan to Canada, and instead will begin shipping them to Canada from NMMC. Nissan will ship 3,300 trucks from NMMC to Canada in FY94, which should cut the "transport lead time" from one month to one week and save approximately $200 dollars per vehicle. Eventually, Nissan expects that nearly 70 percent of the cars it sells in Canada, including the Sentra and Altima, will be made by NMMC.

In Mexico, the 11 May NIKKAN KOGYO reported that Nissan will increase auto production from 180,000 units in FY93 to 200,000 in FY94. NISMEX, Nissan's Mexican subsidiary, has three plants in Mexico. Its Aguascalientes plant plant assembles AD Wagons, AD Vans, and Sentras; the Cuernavaca plant also produces Sentras as well as Nissan Trucks; and the Lerma plant manufactures engine parts and materials, according to the 26 April NIKKAN KOGYO.

The 11 May NIKKAN KOGYO also reported that Nissan has decided to begin exporting its Mexican-made vehicles to Central and South America instead of relying on vehicles exported from Japan. The company is encountering "severe" competition by South Korean automakers, and appreciation of the yen has reduced the price competitiveness of vehicles imported from Japan. According to the paper, Nissan has decided on this move to regain price competitiveness and maintain its foothold in the expanding Latin American market.

Localizing Production of Critical Components

The 4 May NIKKEI reported that Nissan is increasing engine production in North America to the point where "virtually all" engines for U.S.-assembled vehicles are made in Mexico and the United States, making it the "leader" among Japanese automakers. Nissan plans to expand engine production in North America by 15 percent to 415,000 units per year (11 May NIKKAN KOGYO). NIKKEI stated that this move by Nissan will help it maintain price competitiveness and meet local procurement goals.

NISMEX is responsible for producing engines for all Altimas and all 2,400-cc Nissan Trucks produced in North America. The 26 April NIKKAN KOGYO reported that Nissan is also expanding its capacity to locally machine crankshafts used in engines assembled by NISMEX. Nissan will invest about 3 billion yen ($29 million) in new machine tools at its Aguascalientes plant to increase the number of crankshafts processed from 5,000 to 15,000 units per month by the summer of 1995.

NMMC has been tasked with producing 1,600-cc engines used in Sentra models and the "Quest" minivan, which Nissan jointly developed and is producing in Ohio with Ford Motor. Furthermore, NIKKEI reported that NMMC will begin producing a 3,000-cc engine--now exported from Japan--for large Nissan Truck models. This will increase NMMC's engine output by 20,000 units a year, which will raise the ratio of engines produced in North America for autos assembled in the United States to "about 99 percent." Nissan will continue to import about 5,000 engines for the 2,000-cc Sentra models, since the volume is too small to warrant local production, NIKKEI reported.

Nissan has also decided to produce "multi-ring beam suspensions" in the United States and Mexico. [For information on Nissan's suspension production, see the 20 April 1994 *Pacific Rim Economic Review*, page 3]. According to the 31 March NIKKEI, the company will soon be manufacturing in the United States or Mexico virtually all "critical" parts, except transmissions, for autos built in North America.

Nissan-Affiliated Parts Makers

The 7 April NIKKEI SANGYO SHIMBUN reported that Kansei Corp., a Nissan-affiliated manufacturer of automotive meters, is building a "mutually inclusive" auto parts production and supply system between its bases in the United States and Mexico. Because parts imports from Japan are no longer price competitive, Kansei is moving to integrate production in North America to maintain economies of scale and lower costs.

Kansei will begin shipping about 200,000 meter components annually from its Tennessee base to its factory in Aguascalientes, Mexico, for assembly in instrument panels for Nissan Sentras assembled in Mexico. According to the paper, Kansei will also begin shipping 150,000 ashtrays annually from Mexico for Sentras built in the United States.

According to the 21 April NIKKEI SANGYO, Unisia Jecs Corp., a Nissan-affiliated maker of "high function" auto parts, is also moving to establish a "mutual" supply system of auto parts between its plants in North America. The company plans to ship power steering pumps and other parts from the United States to Mexico and send oil pans from Mexico to the United States.

Honda To Produce Autos in Mexico, Suppliers To Follow

On 9 May, Honda Motor Co. announced that it would build passenger vehicles in Mexico. According to the 11 May NIKKAN KOGYO SHIMBUN, Honda will become the first Japanese automaker to have production bases in all three NAFTA countries, and the second, following Nissan, to manufacture autos in Mexico. The company also hopes to export vehicles made in Mexico to other Latin American countries. The 5 May NIKKEI stated that Honda is looking to establish its North American plants as "export bases." The company already exports thousands of vehicles from the United States to Japan and other countries, and on 4 May, it announced that it will export Civics manufactured in Canada to Taiwan and Brazil. [See the 18 May 1994 *Pacific Rim Economic Review*, page 1].

Regarding its Mexican production plans, Honda plans to build a new auto plant this July near its motorcycle plant in Guadalajara at a cost of $50 million, NIKKAN KOGYO stated. When operations begin in November 1995, the plant will produce 15,000 Accords annually for sale in Mexico. Once production reaches 30,000 units per year, Honda will begin exports to other countries in Latin America, but the company does not plan to export finished vehicles from Mexico to Canada or the United States. On the other hand, all Accord engines and a number of parts will be exported from the United States to Mexico.

Honda Parts Suppliers Expanding Local Production

According to the 3 February NIKKAN KOGYO SHIMBUN, Mitsuba Electric Manufacturing Co., a Honda-affiliated maker of electrical equipment, is moving aggressively to shift production of automobile parts to the United States to raise its local content ratio. Initially, Mitsuba will transfer the assembly of starter motors to its U.S. joint venture firm, CME Corporation, and may eventually transfer the assembly of fan and wiper motors.

Mitsuba is planning to increase its local content ratio for parts produced in the United States to 90 percent by FY97, which will be double that of FY92, according to the 21 April NIKKEI SANGYO. Mitsuba plans to reach a 75 percent local content level in 1996, and then will adjust procurement levels based upon exchange rate levels. The paper stated that it would be cheaper for the company to export from Japan if the yen falls to between 120 and 130 to the dollar. If the yen stays around 100 to the dollar, however, Mitsuba "cannot make a profit" unless its local procurement level is raised to 90 percent.

NIKKEI SANGYO also reported that Showa Co., a Honda-affiliated maker of hydraulic shock absorbers, has merged three of its North American subsidiaries to "benefit from greater economies of scale," and Stanley Electric Co., a Honda-group member that makes automotive electrical equipment, has begun designing and producing metal molds in the United States. The paper stated that these firms are moving to lower production costs by producing in the United States, not only for Honda, but also to satisfy increasing orders from the Big Three auto manufacturers.

Construction Equipment Industry

1993 Construction Equipment Shipments Down 8.1 Percent

According to figures compiled by the Japan Construction Equipment Manufacturers' Association, total shipments of construction equipment in 1993 fell 8.1 percent compared to 1992 to 1.72 trillion yen ($16.4 billion). This was the third consecutive yearly decline. Excluding auxiliary equipment, shipments were down 8.5 percent to 1.52 trillion yen ($14.5 billion). Total auxiliary equipment shipments came to 210.2 billion yen ($2 billion), down 5.5 percent.

Of the eight construction equipment categories, tunneling machines showed an increase of 17.0 percent, but all other categories fell. Shipments of construction cranes were down 22.5 percent, basic machinery 21.3 percent, tractors 4.6 percent, and hydraulic shovels 1.0 percent. Domestic demand fell 8.9 percent to 1.28 trillion yen ($12.17 billion), while foreign demand was down 5.9 percent to 434.1 billion yen ($4.13 billion). (Tokyo NIKKAN KOGYO SHIMBUN 9 May 94 p 10)

Economic Trends

FEATURE: Mixed Reaction to Proposed MFA Safeguards on Textile Imports

A trade issues subcommittee of the Ministry of International Trade and Industry (MITI) has recommended applying Multifiber Arrangement (MFA) safeguards on textile imports to Japan to help the industry restructure, according to press reports. There are doubts within industry circles, however, that MITI will actually enact the safeguards because this action may be perceived as a shift in Japan's trade policy.

The Trade Issues Subcommittee of the Textile Industry Council, which is an advisory organ of MITI, publicly disclosed its recommendations on 17 May, according to the 18 May NIKKEI SANGYO SHIMBUN. Based on these recommendations, MITI has begun defining implementation rules for enacting the safeguards.

According to the 18 May Osaka Edition of MAINICHI SHIMBUN, the subcommittee recommended the application of MFA safeguards because the rapid increase in textile imports, mainly from China and other Asian countries, is "destroying the production foundation" of the domestic textile industry. Since 1987 the industry has experienced "record deficits" of 7 to 10 billion yen ($67-95 million) annually. In 1993, textile imports accounted for a 51 percent share of the domestic textile market, MAINICHI reported. MFA safeguards, when applied, would mainly target China, which in 1993 had the largest share--47.5 percent--of textile imports, the 18 May YOMIURI SHIMBUN noted. Other leading textile importers are Pakistan with 14 percent of the market, South Korea with 10.5 percent, and Taiwan with 5.9 percent.

The 18 May NIKKEI SANGYO noted that MITI will first gather data on the actual volume of the targeted textile imports and "technically assess" the resulting damage to the domestic industry in order to determine when MFA safeguards should be applied. It will also examine any existing regulations concerning the targeted imports and "politically assess" the effectiveness of these regulations.

Once a decision has been made to apply MFA safeguards, they will be effective for three years, after which no new measures could be applied until a year had passed, according to the 18 May YOMIURI SHIMBUN. During the first year, MITI will strive to maintain imports of the targeted textiles at the same level, or slightly above the level, of the previous year. During the second and third year it will cap any increases in imports at 6 percent a year. The safeguards will be cancelled if they "did not sufficiently assist the domestic industry."

The 18 May ASAHI SHIMBUN observed that there is a good chance the domestic textile industry can restructure under MFA safeguards. It also asserted that Japan can develop and maintain a foundation for textile production and "never have to rely on restricting imports again."

Other "pluses" of enacting MFA safeguards, the YOMIURI article noted, are that the domestic industry would have time to restructure and could gradually adjust its employment structures. The "minuses" are that consumers would have to pay higher prices for products and that MFA safeguards "run counter to import expansion measures" which are currently being promoted to reduce Japan's trade surplus.

Textile Industry Welcomes MFA Safeguards as Forward Step

Several textile industry leaders have welcomed the proposal to apply MFA safeguards, the 18 May NIHON KEIZAI SHIMBUN (NIKKEI) reported. Reiichi Yukimura, chairman of the Japan Chemical Fiber Association, stated that it is a "landmark event" that safeguards are even being considered. According to the 18 May Osaka MAINICHI, Minoru Shibata, chairman of the Japan Spinners Association, believes safeguards should be "expedited."

People within the industry do not view the proposed MFA safeguards as a "bulldozing measure," the 18 May NIKKEI noted. The 19 May NIKKEI SANGYO reported that a team from the Japan Spinners Association, which has been studying this issue, noted that the United States and Europe have "taken care" of their textile industries using MFA safeguards far more than Japan realizes and that the MFA is recognized as an international rule "because it has so much international support." According to NIKKEI SANGYO, some within the Japanese textile industry are "angry" because the United States and Europe have used their "skillful diplomacy" to protect their textile industries, while Japan "has not established any defenses."

MFA Action Doubted Because of Unclear Standards of Procedure

Some within the industry are also dissatisfied because there are no clearly defined procedures for enacting MFA safeguards, according to the 18 May Osaka MAINICHI. In the past, the 18 May ASAHI noted, MITI has assumed a position of "not taking any MFA actions," and thus, has never defined any implementation rules. The 18 May NIKKEI noted that textile manufacturers question MITI's "earnestness" regarding safeguards because the subcommittee recommendations, which were expected in March, were delayed until May. Consequently, MITI will not complete its elaboration of implementation rules until July. Manufacturers are also gloomy over prospects for any concrete actions because MITI has incorporated "policy assessments" as part of the process for determining relevant cases.

The response of general trading companies has been mixed, the 18 May NIKKEI SANGYO noted. Some companies welcome the MFA safeguards because they feel that unless they are enacted, the domestic industry will be "hollowed out and there will be no one to do business with." Some trading companies, such as Marubeni, wonder why MFA measures have "suddenly appeared, since the MFA will soon be abolished globally." NIKKEI SANGYO also observed that MFA safeguards are a "double-edged sword" for textile companies who have already shifted production overseas as a survival strategy and are now exporting textile products back to Japan.

Japanese Firms Expect Continued Exchange Rate Instability

According to an article in the 19 May NIHON KEIZAI SHIMBUN (NIKKEI), Japanese "market sources" believed that the U.S. Federal Reserve Board's (FRB) announcement of an increase in the official discount rate (ODR) from 3.0 to 3.5 percent on 17 May will have a "limited upward" effect on the value of the U.S. dollar, and expect the yen to remain "high relative to the dollar." They listed two reasons for the limited impact of the ODR increase: Japanese institutional investors, such as life insurance companies, are not investing in dollar-denominated assets such as U.S. treasury bonds; and Japanese exporters will increase sales of dollars in the next two to three months.

The 19 May NIKKEI article reported that life insurance companies remain "cautious about investing in treasury bonds" because of the associated foreign exchange risk. According to the NIKKEI article, Sumitomo Life Insurance was the "only" large institutional investor that bought treasury bonds immediately after the FRB's announcement. The NIKKEI article noted, however, that Sumitomo Life's action did not lead to yen sales and dollar purchases in the foreign exchange market, because Sumitomo Life sold dollar futures simultaneously to hedge the foreign exchange risk. A Sumitomo Life fund manager, quoted in the NIKKEI article, said that he had to make futures contracts to sell dollars because there are "so many uncertain factors" surrounding the yen-dollar exchange rate, including the outcome of the U.S.-Japan framework talks, and therefore the risk of investing in treasury bonds would remain "high."

In an article in the 19 May ASAHI SHIMBUN, a fund manager of a large life insurance company was also quoted as saying that he did not invest in treasury bonds because "the yen-dollar exchange rate in the Tokyo market was unaffected by the FRB's announcement." He continued saying that as long as Japan had a large trade surplus, the current tendency of the dollar to lose value would remain, and so would the risk accompanying investments in treasury bonds.

The 19 May NIKKEI article reported that Japanese exporters, mainly in the automobile and electronics industries, would probably increase sales of dollars in the futures market in next two to three months. Exporters expected that the FRB's decision to raise the ODR would lead to

a higher dollar and did not commit to futures contracts to sell dollars in the next quarter. Exporting firms have thus far sold "only" 20-30 percent of their dollars in the futures market for the July-September period. Consequently, the article noted, exporters have to increase sales of dollars to make up the shortfall of yen funds, which will suppress the rise of the dollar against the yen.

Exporters appear to be content to sell their dollars at about 105 yen per dollar. For example, a financial officer of Toshiba Corporation, an electronics manufacturer, was quoted in the NIKKEI article as saying that Toshiba "has to sell" its dollars at around 105 yen per dollar. A financial officer of TDK, a magnetic media manufacturer, also said that TDK would sell "at least half the dollars it planned to sell for the July-September quarter" at the 105 yen rate. The company does not expect the dollar to rise "substantially" for some time to come. A financial officer of Canon, a camera and electronics manufacturer, was also quoted as saying that it would sell dollars at the 105 yen rate, since it expected the exchange rate to stay at around the 105 yen level.

In the 19 May ASAHI, Keio University Associate Professor Heizo Takenaka said that it was "still too early" to tell whether the value of the dollar would stabilize. Takenaka maintained that the dollar might remain "unstable" because of "uncertainty over U.S. economic fundamentals" and "distrust over the Clinton administration's economic policy management as seen in the cases of health care reform and ratification of the [GATT] Uruguay Round agreement by the Senate, both of which are facing difficulty." Takenaka concluded that as long as U.S. concern over inflation remains and Japan does not take "decisive measures" to reduce its trade surplus, a change in the current trend of a strong yen and a weak dollar is "impossible."

In another article in the 19 May ASAHI, Yukihiro Harada, director of the Research Institute of the Long Term Credit Bank of Japan, noted that, although a "dollar crisis" was avoided for the time being, the structural pairing of a U.S. fiscal deficit and a Japanese trade surplus had not changed. Harada asserted that in order to stabilize the yen-dollar exchange rate, Japan should make "substantial" income tax cuts to stimulate domestic demand, and the United States should reduce its fiscal deficit. Harada also expected the yen-dollar exchange rate to remain "relatively stable" thanks to policy coordination by the G-7 countries, "at least until the Naples summit in July." He noted, however, the possibility of the exchange market becoming "turbulent" again after the summit.

Financial Issues

FEATURE: Ashikaga Bank Suspends Dollar Remittances to North Korea

Ashikaga Bank's recent decision to suspend sending U.S. dollar remittances from other Japanese banks to North Korea via U.S. banks will have little effect on the total money flow from Japan to North Korea, according to Japanese press articles. Several articles suggested that Ashikaga Bank's action was due to "pressure" from the U.S. Government.

According to the 19 May evening editions of NIHON KEIZAI SHIMBUN (NIKKEI), SANKEI SHIMBUN, YOMIURI SHIMBUN, and the 20 May morning edition of ASAHI SHIMBUN, on 19 May Ashikaga Bank, Japan's 27th largest bank and the bank most directly involved in money transfers to North Korea, announced that in April it had suspended sending

U.S. dollar remittances to North Korea on behalf of the customers of other Japanese banks. The bank stated that the decision was its own and did not result from Ministry of Finance (MOF) pressure. In addition, the bank made it clear that the suspension applies "only to dollar remittances from other Japanese banks being sent via U.S. banks," and does not affect dollar remittances from its own customers, Eurodollar and Deutsche mark remittances via European banks, or yen remittances.

Suspension Will Have Little Effect on Remittances to North Korea

Financial sources quoted in the 19 May NIKKEI stated that Ashikaga Bank's action will have "little effect" on the total money flow from Japan to North Korea "because most remittances are made in yen." The 20 May ASAHI also noted that as long as money transfers from Japan to North Korea are deemed legal, and the United Nations does not formally impose economic sanctions against North Korea, remittances from Japan to North Korea are expected to continue.

According to the 11 April NIKKEI BUSINESS, about 90 percent of remittances from Japan to North Korea are transferred through Ashikaga Bank [For further details, see the 20 April 1994 *Pacific Rim Economic Review*, pp 7-9]. The 19 May SANKEI reported that Ashikaga Bank has been serving as the main bank for pachinko machine manufacturers of Korean descent in Gumma Prefecture, which adjoins Tochigi Prefecture, Ashikaga Bank's base. Because of that connection, owners of pachinko machine manufacturing companies who are "sympathetic to North Korea" have been using Ashikaga Bank to send money to North Korea.

Alleged Pressure from MOF, U.S. Government

Several press articles suggested that Ashikaga Bank suspended dollar remittances to North Korea via U.S. banks because of MOF and U.S. Government "pressure." For example, the 19 May NIKKEI said that Ashikaga Bank had "voluntarily" suspended dollar remittances out of "consideration" for the U.S. Government, which has been "irritated" by Japanese remittances to North Korea because of the DPRK's suspected nuclear weapons program. The 20 May ASAHI quoted financial sources as saying that Ashikaga Bank had suspended dollar remittances because it feared "some sort of retaliation" from U.S. monetary authorities if the bank continued sending dollar remittances to North Korea via U.S. banks. The 19 May SANKEI also claimed that the bank's decision was the "result of U.S. monetary authorities tightening up" dollar remittances by third countries to North Korea via U.S. banks.

According to press articles, the MOF denied exerting any pressure or issuing administrative guidance to Ashikaga Bank to suspend handling of dollar remittances. According to the NIKKEI, SANKEI, and ASAHI articles, the MOF's International Finance Bureau stated that it had taken no action against Ashikaga Bank, and emphasized that the decision was Ashikaga Bank's own. According to the NIKKEI, SANKEI, and ASAHI articles, the MOF also stated there is no discrimination on the part of the Japanese Government against North Korea receiving money transfers.

FEATURE: Favorable Tax Treatment for Pro-North Korea Businesses

In a recent magazine article, a prominent Korean affairs specialist claimed that if Japan's tax authorities were to end preferential tax treatment extended to Korean business owners in Japan, and if prefectural governments tightened their audits of North Korean-affiliated financial institutions, money transfers from Japan to North Korea would be "effectively reduced," even without UN economic sanctions.

Favorable Tax Treatment

In an article published in the June 1994 issue of the monthly THIS IS YOMIURI, Katsumi Sato, editor in chief of the journal GENDAI KOREA (Modern Korea)--a monthly publication for Korea specialists--asserted that Japan's National Tax Administration Agency (NTAA) has given favorable tax treatment to Korean business owners belonging to the Korean Federation of Commerce and Industry (KFCI), which is an organ of the pro-North Korea General Federation of Korean Residents in Japan (Chosen Soren). According to Sato, this favorable treatment is based on an agreement on taxation matters signed by the NTAA and KFCI in October 1976. According to a booklet entitled "Chosen Soren" published by Chosen Soren in February 1991, and cited by Sato, the agreement stipulates that:

--The NTAA will resolve all tax problems concerning KFCI members through "negotiations with KFCI."

--The NTAA recognizes KFCI members' payments of regular membership fees to trade and industry organizations as business deductions.

--The NTAA will "positively resolve" the issue of declaring as tax exempt payments by KFCI members to operate Chosen Soren schools.

--The NTAA recognizes expenses for travel to third countries for business activities as business deductions.

--The NTAA will resolve the tax cases of KFCI members "presently contested in court" through negotiations with KFCI.

Sato also cited the 14 January 1992 issue of CHOSEN SHOKO SHIMBUN (Korea Commerce and Industry Newspaper) as reporting that "in 1991 the KFCI peacefully resolved tax problems of KFCI members and further strengthened our collective bargaining rights with Japan's NTAA." Sato considers NTAA's recognition of KFCI's collective bargaining rights as constituting preferential treatment for KFCI members, since the NTAA does not recognize the right of Japanese citizens to bargain collectively concerning tax matters. Sato also considers the NTAA's method of resolving the tax problems of individual businessmen through negotiations with KFCI to be favorable treatment, since the NTAA does not permit Japanese business owners to negotiate in the same manner.

Sato speculated in his article that this favorable tax treatment--at least in part--has enabled North Korean business owners in Japan to contribute large amounts of money to North Korea. According to Sato, a number of businessmen make contributions of over 100 million yen ($95,000) annually to North Korea. The largest contribution ever made by a Korean individual

was 5 billion yen ($47.6 million), made at the peak of Japan's bubble economy in 1987. In 1994, with the economy still in recession, one Korean individual contributed boring equipment worth 350 million yen ($3.33 million) to North Korea. According to Sato, the amount of money transferred from Japan to North Korea in 1990 is estimated at 60 billion yen ($571 million).

'Loose Auditing' of Chosen Soren Credit Associations

Sato also pointed to "loose auditing" of Chogin Credit Associations--which serve Chosen Soren members--by prefectural governments as another reason for the flow of funds to North Korea. Sato stated that an "enormous" amount of money had been loaned out and left unaccounted for by the Chogin Credit Associations. According to the 30 March 1993 issue of AERA, a total of 8.2 billion yen ($78 million) had been loaned to four Chosen Soren-related firms and one individual by Chogin Credit Associations, but had not been repaid [for details, see the 21 April 1993 *Pacific Rim Economic Review*, pp 7-9]. According to the AERA article, the Chogin Credit Associations serve Chosen Soren members and operate in 38 of Japan's 47 prefectures, and prefectural governments are responsible for auditing credit associations operating within their jurisdictions. Sato estimated the total deposits of Chogin Credit Associations at approximately 2.37 trillion yen ($22.6 billion).

Sato concluded his article by stating that if NTAA canceled the 1976 agreement with KFCI and applied the same rules to Korean business owners as it does to Japanese owners and, if prefectural governments tightened their auditing of the Chogin Credit Associations, money transfers from Japan to North Korea "would effectively be reduced" without the imposition of UN economic sanctions against North Korea.

FEATURE: Securities Firms, Banks Show Interest in Mexico

> ***With the signing of the NAFTA agreement, Japanese securities companies and banks have shown renewed interest in setting up or expanding operations in Mexico. Japan's "big four" securities firms are planning to establish representative offices there, and at least two Japanese banks will soon receive permission to begin operations.***

Securities Companies Waiting to Open Representative Offices

Deregulation of Mexico's financial markets is progressing in the wake of NAFTA, according to the 12 May NIKKEI KINYU SHIMBUN. Japan's "big four" securities companies--Nomura, Nikko, Yamaichi, and Daiwa--are waiting for Mexican financial authorities to disclose the official policy on foreign securities firms opening representative offices in Mexico, which is expected to be announced in May. In the meantime, the four are planning to establish representative offices under the auspices of their U.S. subsidiaries. The Mexican Government has already decided its policy on full subsidiaries of foreign corporations, as opposed to representative offices.

However, the securities firms have opted to open representative offices because they are less costly and allow the securities companies to continue their practice of covering all Mexican business from their U.S. offices. With the opening of the representative offices, the big four expect to enhance their information collection capabilities, forge stronger links with customers, and expand their underwriting businesses. The companies attempted to establish representative offices in Mexico in 1991, but were delayed by complications involving NAFTA. The

representative offices in Mexico, with the exception of Nomura's office in Sao Paulo, Brazil, will be the first established by any of Japan's securities companies in South and Central America.

Mexico Encouraging Japanese Banks to Establish Branches

Foreign banks had been virtually excluded from the Mexican market, with Citibank being the only foreign bank with an authorized branch, according to the 5 January NIKKEI KINYU. [For reporting on Japanese banks in Mexico see the 9 February 1994 *Pacific Rim Economic Review*, pp 3-4.] However, since the implementation of NAFTA, Mexican financial authorities, including the deputy secretary of foreign commerce, have encouraged Japanese banks to set up bases of operations there, according to the 22 April NIKKEI KINYU. The deputy secretary stated that foreign banks with branches in the United States would be treated just like U.S. entities under NAFTA and strongly urged Japanese banks to set up offices.

In March, Mexico's Secretariat of Finance and Public Credit explained part of its policy on foreign entities entering Mexico's financial markets, according to the 12 March ASAHI SHIMBUN. In April it announced that banks could apply by 31 July for authorization to open branches in the latter half of the year, according to the 22 April NIKKEI KINYU. Mexico's ambassador to Japan, Sergio Gonzalez Galvez, said two Japanese banks will be among those foreign banks Mexico will soon allow to operate there, according to a 31 March KYODO News Service report.

Two Japanese banks already have reciprocal arrangements with Mexican banks, according to the 18 January NIKKEI KINYU. The Long-Term Credit Bank of Japan has a cooperative arrangement with the National Foreign Trade Bank of Mexico, which it established in November 1993 to assist Japanese companies entering the Mexican market, according to the 23 November 1993 NIKKEI. The Bank of Tokyo has a similar arrangement with National Finance Bank (NAFIN), which it established in April 1990 and upgraded in late 1993, according to the 24 December NIKKEI. In addition, the Bank of Tokyo conducts business with other Mexican banks and commissions them to represent the bank in conducting full branch operations, according to the 1 January NIKKEI.

Banks Active in Samurai Bond Market

The 12 May NIKKEI KINYU article observed that corporate and government demand for funds is strong in Mexico, especially for samurai bonds or yen-based bonds issued in Japan by nonresidents. The Mexican Government issued samurai bonds in 1993 for the first time in 16 years. According to the 12 May NIKKEI KINYU, Mexico was the leading issuer of samurai bonds last year.

NAFTA has prompted Fuji Bank to enhance its business with the Mexican Government and its affiliated financial institutions in anticipation of an increasing Japanese corporate presence in Mexico, according to the 15 March NIKKEI KINYU. Working with its wholly-owned U.S. subsidiary, Fuji Capital Markets, Fuji Bank in 1993 managed the placement of 35 billion yen ($333 million) in samurai bonds issued in Japan--10 billion yen ($95 million) for the Mexican Government, 10 billion yen ($95 million) for NAFIN, and 15 billion yen ($142 million) for the National Foreign Trade Bank of Mexico.

For the first time since Mexico experienced its debt crisis in 1982, Fuji has resumed "what amounts to" long-term financing for private Mexican companies, the 21 February NIKKEI reported. The bank has invested in a portion of the $100 million in bonds privately placed by

a nonferrous metals refining company, which has a contract to export silver through Japanese trading companies. The arrangement is essentially a long-term loan collateralized by export sales, which are managed by Fuji's wholly-owned U.S. subsidiary, Fuji Bank and Trust, the article observed.

Daiwa International Trust Bank, a wholly-owned subsidiary of Daiwa Securities, was designated to manage samurai bonds issued by Mexico's state-run oil company, Mexican Petroleum (PEMEX), according to the 15 May NIKKEI. It will manage the payment of principal and interest on some 20 billion yen ($190 million) in samurai bonds to be issued in June 1994 and underwritten by Daiwa Securities.

The government-affiliated Export-Import Bank of Japan recently signed an agreement for an untied loan for a maximum of $200 million to NAFIN, according to the 13 April NIKKEI. The funds will be channelled by NAFIN through local financial institutions to Mexican companies and applied to the development of pollution-prevention facilities. This is the second loan in Japan's environmental aid program to Mexico since 1991. Chiyoda Corp., an oil refining and petrochemical plant engineering firm, won a contract to build two of the three facilities PEMEX will build in connection with the environmental aid program, according to the 7 April NIKKEI SANGYO. The roughly 8 billion yen ($76 million) contract is part of a $900 million project for improving the environment.

In addition, NAFTA has led to the revival of multinational loan syndicates in Mexico, the 20 March NIKKEI reported. The Industrial Bank of Japan is the syndicate leader for the $300 million Japanese banks offered in short-term trade loans to PEMEX out of a combined total of $1.1 billion in loans by both Japanese and U.S. banks. The article observed that Japanese banks are eager to participate in future loan syndications.

FEATURE: Norinchukin Striving for Universal Bank Status

> ***Norinchukin Bank is on its way to becoming a "universal bank," benefitting from its close links to Japan's agricultural credit cooperatives and from assistance from the Ministry of Finance (MOF), which together with the Ministry of Agriculture, Forestry and Fisheries (MAFF) oversee the bank, according to press reporting. Norinchukin also received preferential treatment in 1993 concerning the interest rate on loans extended to housing loan companies. Last year the bank established Norinchukin Securities and a trust fund management subsidiary.***

Norinchukin or the Central Bank for Agriculture and Forestry, is nearing its goal of becoming a universal bank, according to the 14 March NIKKEI KINYU SHIMBUN. A universal bank is a European-style bank engaging in the full range of financial services, including commercial, trust and investment banking, and the securities business. Operating under the joint auspices of the MOF and MAFF, Norinchukin has total assets of 43 trillion yen ($410 billion) and serves as the central bank for Japan's agricultural credit cooperatives. These cooperatives have deposits totalling 63 trillion yen ($600 billion), more than the nation's largest commercial bank, according to the 17 May ASAHI SHIMBUN.

<u>'Secret Deal' Favors Norinchukin</u>

Norinchukin and its affiliates recently were reported to have been involved in a "secret" agreement between the MOF and MAFF, the 15 May ASAHI reported. A "secret memo" was

reportedly exchanged between the finance and agriculture ministries in February 1993 regarding the reduction of interest rates on loans made by agricultural financial institutions affiliated with Norinchukin to seven housing loan companies that were experiencing financial difficulties and faced restructuring. (Japanese agricultural financial institutions are under the jurisdiction of the MAFF, while Japanese housing loan companies are under the jurisdiction of the MOF.) The agreement provided that the Bank of Japan (BOJ) would offer low-interest loans to Norinchukin, which would then channel the funds to the agricultural financial institutions, ASAHI reported. In return, the agricultural financial institutions would accept a reduction in the interest rates receivable from the distressed housing loan companies as part of the restructuring plan the MOF was then devising. [For details on the housing loan companies' bad loans, see the 26 January 1994 *Pacific Rim Economic Review*, pp 6-8.] The plan involved the remission or reduction of interest rates on loans made to the housing lenders by their parent financial institutions, which included the agricultural institutions affiliated with Norinchukin. While private financial institutions accepted complete remission of interest or a reduction to 2.5 percent, the Norinchukin-affiliated financial institutions were allowed to maintain a considerably higher rate of 4.5 percent. Nevertheless, because the agricultural financial institutions were not amenable to "reductions of any sort," the 17 May ASAHI reported, the restructuring plan necessitated a promise from the BOJ beforehand for low-interest "assistance loans."

The agricultural institutions argued that their high loan exposure to the housing lenders made interest rate reductions on the scale accepted by the private banks unacceptable, the 16 May NIHON KEIZAI SHIMBUN (NIKKEI) reported. At the time the MOF was planning to restructure roughly 6 trillion yen ($57 billion) out of the 14 trillion yen ($133 billion) in total loans owed by seven of the eight housing lenders to Norinchukin and the agricultural financial institutions affiliated with it. As of the September mid-FY93 accounting period, roughly 60 percent of the housing lenders' combined loans receivable were nonperforming and this total was expected to increase, according to the 17 May NIKKEI KINYU.

MOF Enlists Norinchukin's Help

The 17 May ASAHI explained the reason behind the preferential 4.5 percent interest rate for Norinchukin's affiliates. It was a "pay back" for the assistance Norinchukin provided the MOF in 1992 in passing the Financial System Reform Bill. The bill, intended to increase competition in the finance industry, had not gone to the Diet for deliberation because of opposition party resistance. Since a related bill would allow Norinchukin to establish a securities subsidiary, the MOF enlisted Norinchukin--with its considerable influence over Diet members representing agricultural interests--to assist in passing the bill, ASAHI noted. Norinchukin's management met politicians in both the ruling and opposition parties, while the agricultural cooperatives contacted their Diet members to support the bill. The bill passed, and the MOF showed its "appreciation" to Norinchukin by not requiring its affiliates to shoulder the severely reduced interest rates to the housing lenders required of other banks and by arranging low-interest loans from the BOJ.

Norinchukin Subsidiaries Show Strong Performance

Subsequently, Norinchukin established Norinchukin Securities, one of only three bank securities subsidiaries established in July 1993 after passage of the Financial System Reform Law, according to the 11 May NIKKEI KINYU. The subsidiary earned ordinary profits of 200 million ($1.9 million) for FY93 which ended in March 1994. Of the five bank securities subsidiaries established to date, two posted FY93 losses and of the three that made money, only Norinchukin Securities showed the "current account surplus" the MOF requires for the three-year-period from the inception of operations. Norinchukin Securities' profits were bolstered

primarily by commissions on sales of investment trust funds to another affiliate in the Norinchukin Group, Norinchukin Investment Management Co. Some 60 percent of the corporate and samurai bonds, which are yen-denominated bonds issued in Japan by non-residents, underwritten by Norinchukin Securities as of March 1994 were purchased by the prefectural-level credit divisions of agricultural credit cooperatives and the other affiliates of Norinchukin, according to the 14 March NIKKEI KINYU.

Similarly, Norinchukin Investment Management Co. is the only investment trust fund management company of the five established in September 1993 that is expected to post profits for FY93, according to the 26 April NIKKEI KINYU. It posted ordinary profits of 30 billion yen ($285 million), bolstered by commissions on direct sales of investment trusts to affiliated institutions, while the four subsidiaries established by the private commercial banks all posted losses of roughly 200 million yen ($1.9 million). The NIKKEI KINYU observed that the private bank subsidiaries losses were expected to continue to suffer losses in FY94 and that the gap between their profitability and that of Norinchukin Investment would widen. It attributed this widening gap to the support the Norinchukin affiliates can offer Norinchukin Investment in the form of stable sales. Some 40 percent of Norinchukin Investment's sales of stock and public bond investment trusts were to the prefectural-level credit divisions of agricultural credit cooperatives and the other agricultural financial institutions, according to the 14 March NIKKEI KINYU.

Foreign Trade and Investment

CHINA

Apparel Firms Establish Operations in Shanghai, Shandong, Jiangsu

Japanese business newspapers in the past few weeks have carried a number of reports concerning Japanese textile companies and clothing manufacturers setting up or expanding operations in China. Three of the largest joint venture undertakings are as follows:

Mizuno--A leading manufacturer of sporting goods and apparel, Mizuno, together with its subsidiary, Hong Kong Mizuno, and the Chinese sporting goods merchandising firm, Shanghai Stationery Corp., on 1 April established a joint venture company to manufacture and export sportswear. The new company, Shanghai Mizuno Co. Ltd., is capitalized at $2 million, with Mizuno and Hong Kong Mizuno contributing 90 percent and Shanghai Stationery 10 percent. The joint venture firm will begin building a 2,000-square meter factory in Shanghai in June. Total investment, including real estate, will be about 200 million yen ($1.9 million). Shanghai Mizuno will import the materials for ski wear and windbreakers from Japan and export the finished product back to Japan. The company plans to produce 150,000 pieces in the first fiscal year and 500,000 by the third year. (Tokyo NIKKEI RYUTSU SHIMBUN 5 May 94 p 10)

Gunze--Japan's largest manufacturer of knit underwear, Gunze, together with the trading company Mitsui & Co. and the Jinan Knitting Factory, have established an underwear manufacturing joint venture company in Jinan City, Shandong Province. The new company, Jinan Gunze Fashion Co. Ltd., is capitalized at $1.5 million, with Gunze and Jinan Knitting each contributing 46 percent, Mitsui 5 percent, and the Chinese trading firm Shandong Provincial Textile Import Export Company 3 percent. Jinan Gunze Fashion will begin producing children's underwear in July and will gradually expand its product line. The company anticipates sales of

about 240 million yen ($2.3 million) in three years. (Tokyo NIKKEI SANGYO SHIMBUN 12 May 94 p 12)

Kaitaku--An apparel manufacturer based in Okayama City, Okayama Prefecture, Kaitaku is expanding its presence in China by establishing joint venture companies in Suzhou, Jiangsu Province, and Qingdao, Shandong Province, and by building a wholly owned textile mill in Shanghai. The Jiangsu joint venture, Suzhou Kaitaku, will invest about 30 million yen ($286,000) to buy a local mill, which will begin producing pajamas on 25 May. It will have a production capacity of 50,000 garments per month. The company's wholly owned subsidiary, Shanghai Kaitaku, will complete construction of a washing and knitting mill as early as December. In Qingdao, Kaitaku will convert its Kaitaku Qingdao Office, established in 1991, into a joint venture company to produce and inspect work clothing.

Kaitaku formed its first Chinese joint venture company in 1992 by investing 60 percent in Wuxi Kaitaku Fashion Co. Ltd., located in Wuxi, Jiangsu Province. (Tokyo NIHON KEIZAI SHIMBUN 19 May 94 p 35)

CZECH REPUBLIC

Sakura Bank Signs Cooperation Agreement With Czech Banks

Sakura Bank, one of Japan's 11 commercial banks, has signed cooperation agreements with the first and third largest commercial banks in the Czech Republic. According to the agreements, the Czech banks will provide Sakura with information about Czech industry, while Sakura will introduce Japanese companies considering business operations in the Czech Republic to both banks. Sakura will also provide the Czech banks with information on the economies of Asian countries. This is the first time a Japanese bank has concluded a cooperation agreement with a bank in the Czech Republic. (Tokyo NIHON KEIZAI SHIMBUN 20 May 94 p 7)

INDONESIA

FEATURE: Kanebo, Toyobo Building Textile, Garment Plants

Kanebo and Toyobo, two of Japan's largest textile companies, are building production facilities in Indonesia. Kanebo is investing in a large cotton spinning and weaving mill as part of its plan to shift all of its cotton textile production to Indonesia and China. Toyobo is, for the first time, investing in an overseas garment production plant to strengthen its "end product" business.

Kanebo, together with its subsidiary, Kanebo Cotton Yarn (KCY), are in the process of shifting domestic production of cotton and mixed cotton yarn and cloth to Indonesia and China as part of the Kanebo Group's restructuring plan, according to the 27 April NIKKEI SANGYO SHIMBUN. The 27 April NIKKAN KOGYO SHIMBUN noted that the closure of three KCY spinning and weaving mills in Japan last fall left the firm with 106,000 "surplus" spindles, of which 82,000 will be shipped to production sites in China and Indonesia. The remaining 24,000

spindles will be eliminated. Continued losses in Kanebo's textile operations lie behind its decision to move cotton textile production overseas, according to the 27 April NIHON KEIZAI SHIMBUN. Kanebo's total investment in its Indonesian operations will be 4 billion yen ($39 million), NIKKEI SANGYO reported.

Indonesian Mill To Ship Cotton Fabric Back to Japan

"PT Kanebo Indonesia Textile Mills," the company's new production facility, is being built in Java in the Cikampek City bonded processing zone, according to the NIKKEI SANGYO article. Investment in the project, which will begin operations in January 1995, will be $18 million, of which Kanebo will contribute 18.23 percent and KCY the remainder. The 27 April NIKKAN KOGYO SHIMBUN reported that the president of the new company will be a KCY managing director. NIKKEI SANGYO reported that production equipment from two domestic KCY mills closed last autumn--its Nagano spinning mill and Saidaiji weaving mill--will be shipped to the new Indonesian mill. The NIKKAN KOGYO article specified that 30,000 spindles and 144 weaving machines will be shipped to Indonesia from the two closed mills. The Indonesian mill, which will employ 600 people, will spin 2,250 tons of cotton and mixed cotton yarn and will produce 10.75 million meters of fabric annually, generating yearly sales of 2.5 billion yen ($23.8 million).

When the new mill is completed, all cotton cloth produced will be exported to Kanebo's Nagahama dyeing mill in Shiga Prefecture for dyeing and final processing, according to NIKKEI SANGYO. The finished fabric, 60 percent of which will be dress shirt cloth, will be "reexported" to garment companies in Asia and also sold domestically.

Joint Venture With Shanghai Cotton Factory

Kanebo and KCY have formed a joint venture company with the Shanghai No. 15 Cotton Spinning and Weaving Factory to produce high-quality cotton yarn and fabric, according to the 15 April NIKKAN KOGYO SHIMBUN. The new company, "Shanghai Huazhong Spinning and Weaving Ltd.," will be established in May with Kanebo and KCY contributing 50 percent and the Shanghai company 50 percent of the 1.4 billion yen ($13.5 million) in initial capital.

Production equipment will be transferred from KCY's Matsuzaka mill in Mie Prefecture--which was closed last year--and from other KCY facilities. The joint venture plant will begin operating in July, producing high-quality medium and fine-grade combed cotton yarn and dyed yarn at an annual rate of 3,800 tons of yarn and 1.4 million meters of woven cloth.

Toyobo To Build Joint Venture Clothing Plant in Bandung

Toyobo, Japan's leading textile company, together with two subsidiaries and an Indonesian garment company, will build a joint venture clothing plant in Bandung, Indonesia, according to the 27 April NIKKEI SANGYO SHIMBUN. This is the first overseas clothing plant Toyobo has invested in, and it will help the company strengthen its "end processing business."

The new company, "STG Garment," will be capitalized at $2.5 million, with Toyobo contributing 30 percent; two of its subsidiaries, Shinko Sangyo and Eikogyo, 45 and 5 percent, respectively; and Gistex, a Bandung weaving and sewing company, 20 percent. Total investment will reach $8 million. The president of the joint venture will be a Shinko Sangyo executive. The plant will make medium-quality white shirts, polo shirts, and jogging suits for export to Europe, the United States, and Japan. The plant, which will begin operating at yearend, will

employ 550 people and will have 265 sewing machines. All fabric and other materials will be produced in Indonesia. The 27 April NIKKAN KOGYO SHIMBUN added that the cotton fabric supplied to the new company will come from Toyobo's Indonesian cotton spinning and weaving mill and that the new company will turn out 1.2 million garments annually.

KAZAKHSTAN

Mitsubishi Negotiating Oil Pipeline Feasibility Study

Mitsubishi Corp., Japan's largest trading company, is negotiating a contract with the Kazakhstan Government concerning a feasibility study for the construction of a 1,200 km oil pipeline. Mitsubishi expects to receive the contract in early summer. The pipeline, which would cost between $600 million and $1 billion, would connect the Tengiz oilfield with refineries in Chimkent, in south-central Kazakhstan, and Almaty, the capital. A pipeline already connects refineries in Pavlodar, in northeast Kazakhstan, and Chimkent. (Sendai KAHOKU SHIMPO 5 May 94 p 9)

UZBEKISTAN

Banks Sign Cooperation Agreements With Uzbek National Bank

Sakura Bank, one of Japan's leading commercial banks, and Bank of Tokyo, a commercial bank specializing in foreign exchange, have signed separate cooperation agreements with the National Bank for Foreign Economic Activity of Uzbekistan, according to the 19 May NIKKEI KINYU SHIMBUN. The two agreements will facilitate exchanges of information to promote Japanese investment in Uzbekistan. Sakura and the Bank of Tokyo will introduce Japanese trading companies planning to expand into Uzbekistan to the National Bank, which in turn will introduce them to potential Uzbek business partners.

The Uzbek National Bank for Foreign Economic Activity oversees all of Uzbekistan's international financial activities as well as financing for domestic industrial development, according to the 14 May ASAHI SHIMBUN. Currently, Yusuke Matsuzaki, formerly the president of a Japanese financial subsidiary in London, serves as a senior advisor to the National Bank and is assisting it in locating overseas business partners for small to medium sized Uzbek businesses.

VIETNAM

Electronics Parts Firm To Triple Production of Coils

Sumida Electric Co., a manufacturer of parts for electronic products and communications equipment, plans to triple the number of coils used in electronic parts that are manufactured in Vietnam through consigned production. Sumida's coil production in Vietnam will be expanded from last year's level of 20 million to 60 million in FY94. Last summer Sumida began the consigned production of coils used in electronic circuits with a state-owned television plant in Ho Chi Minh City, using equipment transferred from a Sumida plant in the Philippines. Sumida

wants to increase the ratio of locally procured materials, which is now in the 70 percent range, to the 80 percent level through cost reductions. The coils have been shipped to audiovisual and communications equipment manufacturers in Europe, the United States, and Japan. Sumida plans to market its expanded coil output to "Japanese electronic parts companies operating in Europe, the United States, and Asia."

Sumida is planning to develop a "strong production base" in Vietnam because with the appreciation of the yen, the cost advantage of consigned production in Vietnam and China has increased. According to Sumida President Shigeyuki Yawata, "production costs are roughly the same as in China," although transportation costs are higher in Vietnam. The company will decide by the end of FY94 whether it will develop its production base by supplying additional equipment to the Ho Chi Minh City manufacturer or whether it will build its own production plant. (Tokyo NIKKEI SANGYO SHIMBUN 13 May 94 p 9)

Machine Tools/Robotics

March Machine Tool Orders Declined 6.1 Percent

According to statistics compiled by the Japan Machine Tool Builders' Association, machine tool orders for March 1994 declined 6.1 percent compared to March 1993 to 50.92 billion yen ($484.95 million). This is the first time in three years that the year-on-year decline has been in single digits, it is also the first time in 1994 that orders have reached the 50 billion yen level.

Domestic orders came to 30.15 billion yen ($287.1 million), down 16.8 percent from last year, but were up 35.3 percent from February. By sector, orders from the automobile industry were about the same as last year, electrical machinery industry orders were up over 30 percent, but orders from the general purpose machinery industry fell 36.3 percent. Exports increased 15.6 percent from last year to 20.78 billion yen ($197.84 million). Within the industry the prevalent view is that "the bottom of the slump occurred between October and December last year," but "while inquiries have increased, orders have not." (Tokyo NIHON KEIZAI SHIMBUN 12 May 94 p 13)

Semiconductors/Computers/Electronics

NEC To Establish Research Center in Germany

NEC Corp. announced on 19 May that it will establish a science and technology research center in Germany, the company's first in Europe and its third overseas. "C&C Research Laboratories NEC Europe" will be inaugurated in July as a division of NEC Europe at a cost of about 100 million yen ($955,000) for its first fiscal year. The center will be located in the technopark of the German Society for Mathematics and Data Processing (GMD) outside of Bonn. Initially, it will employ six researchers, but that number will increase to about 20 in the near future.

The center will concentrate on research in parallel processing algorithms, technological simulations centering on numerical processing, and multimedia communications. In addition, the center will have an NEC Cenju-3 massively parallel processing supercomputer and will conduct joint research on parallel processing with the GMD.

NEC hopes its German center will help the company "enrich" its European-based research and development. The company already has research exchange relationships with a number of European institutes, including the Swiss National Supercomputer Center, the German Aerospace Research Institute, and the French National Data Processing and Automation Research Institute in the fields of supercomputing, next-generation communications, and artificial intelligence. (Tokyo NIKKEI SANGYO SHIMBUN 20 May 94 p 7)

CHINA

Domestic Developments

FEATURE: Approaches To Transforming State Enterprises Outlined

Recent press reports suggest that the government is urging all localities to follow the principle of "one plant, one policy" in searching for appropriate individual solutions in making China's medium- and large-sized state enterprises competitive in the free market within three to five years. Localities are also looking for ways to make smaller state-owned enterprises more competitive.

According to the 16 March issue of Beijing XIAOFEI SHIBAO, the Deputy Director of the State Economic and Trade Commission, Chen Qingtai, recently stated that China's 1300 large- and medium-sized state enterprises will all be gradually forced into market competition within three to five years, with only the fittest expected to survive. In endorsing the guideline of "one plant, one policy," Chen noted that, although enterprises gained more autonomy since being granted 14 decisionmaking powers, some enterprises still require financial and technical infusions while others need to be shut down, merged, leased out, auctioned off, or declared bankrupt. All localities must formulate their own specific plans to solve their problems. However, final approval on important changes, such as the sale of an entire plant, property right transfers, joint ventures, and shareholding conversions must be obtained from the relevant departments.

The 16 March issue of Beijing XIAOFEI SHIBAO gave an example of an approach to transforming state enterprises. In Jiangsu Province, an international tender was offered for the contracting of a group of large- and medium-sized money-losing state enterprises in Nanjing. Under the tender, foreign contractors will be responsible for paying wages, operating expenses, and state and profits taxes, and would be required to meet production quotas and to introduce advanced management and operational methods. In return, they will be granted full autonomy in production, sales, personnel, finance, and materials. Three Nanjing enterprises with assets valued between 40 to 100 million yuan have already been contracted by Thai and Hong Kong consortia.

The 24 March issue of Chongqing GAIGE SHIBAO reported that the Shunqing District of Nanchong, Sichuan formulated a plan to implement enterprise reform at the end of 1993. Many Shunqing state enterprises are to be transformed into limited companies or shareholding cooperatives. The techniques of contracting out and leasing out will also be employed. Department cadres have been sent down to train personnel and assist in actual implementation. Seven out of the 10 selected enterprises have already completed the asset evaluation process, and there is a good chance that the target of transforming 60 percent of local state enterprises into shareholding companies this year will be attained.

According to the 14 April issue of Beijing JINGJI CANKAO BAO, the municipal government of Fuzhou, Fujian has made impressive progress since the second half of 1992. So far, twenty-eight enterprises have been "grafted" to foreign investors either through the introduction of joint operations or the transfer of property rights. Thirty-eight enterprises have been merged and sixteen enterprises have reversed their losses by wholly or partly engaging in "state-owned, privately-operated" practices.

The 13 April issue of HEBEI RIBAO reports that the "one plant, one policy" is also being adopted by Baoding, Hebei to reverse enterprise losses. Because the situation in each plant is different, the mayor and party secretary personally led a group of experienced cadres to each plant to study and formulate solutions. As a result, some plants were divided into smaller ones, some were converted into shareholding companies, and some were contracted out. Other plants were merged, entered into joint ventures, or had their ineffective leaders replaced. The 11 and 25 April issues of the PRC-owned Hong Kong magazine CHING CHI TAO PAO [ECONOMIC REPORTER] reported on 21 plants in Baoding that welcome foreign participation. Foreigners may choose to invest in capital, technology, marketing, or management and will be granted shares.

The Shanghai municipal government is using another approach in reforming smaller state-owned enterprises. In a concerted effort to more rapidly develop the private sector and to identify new ways to reform small state-owned enterprises, the government is for the first time this year allowing workers and individuals to buy up certain small state, or collective-owned enterprises, according to the 16 March issue of Beijing ZHONGGUO FANGZHI BAO. The city's goal for 1994 is to increase the number of private enterprises and increase their scale to above that of the average national level. Currently, relevant departments are moving quickly to formulate regulations on the development of individual and private enterprises. With a few exceptions, all proposals to establish individual and private enterprises that meet the state criteria will be approved. The state also encourages individuals with sufficient funds to lease out or contract out small state-owned and collective enterprises or convert them into shareholding companies. The local government further allows individuals to buy these small "state or collective" enterprises and transform them into "private" enterprises.

According to the 15 April issue of Shanghai WEN HUI BAO, some 202 workers in a small Shanghai lamp factory paid one million yuan to buy their factory. The paper notes that this is the first time in Shanghai's history that a small state-owned enterprise has been totally transformed into a privately-owned and privately-run shareholding company. The sale actually benefits both the state and the factory, according to the paper. The state is able to preserve the value of state assets and convert stagnant assets into funds needed for key construction projects. Meanwhile, the enterprise is enlivened because it now enjoys full autonomy and is free from problems associated with being part of the "big rice bowl." It also benefits from clearly defined property rights, a more flexible operating mechanism, and a direct relationship between workers and profits.

Fujian Suspends Unqualified Projects in Development Zones

Fujian Province has suspended 20 unqualified development area projects and has recovered 102 square km of land. The province now has 116 plots of land designated as development areas, in which there are a total of 1,077 foreign-invested projects, of which 478 have begun operation or will soon do so. When all foreign-invested projects have been completed, an estimated $10 billion in foreign funds will have been introduced. (Beijing ZHONGGUO XINWEN SHE 0945 GMT 14 May 94)

Guangdong Overfulfills Quota for Selling Treasury Bonds

Guangdong Province has fulfilled ahead of schedule the 1994 quota set by the central authorities for selling two-year state treasury bonds. A total of RMB 1.2 billion worth of two-year state treasury bonds had been sold throughout the province as of 21 May. This achievement has been possible because the financial, banking, propaganda, and other relevant

departments have closely cooperated with one another, party and government leaders at all levels have personally taken the lead in buying state treasury bonds, and the cadres and people have responded to the government's call to buy state treasury bonds. (Guangzhou Guangdong People's Radio Network 1000 GMT 21 May 94

Guangdong Suspends Approval of Land Sales for Luxury Projects

Guangdong's State Land Department recently issued a circular ordering authorities at all levels to stop providing land for building luxury offices, housing, villas, and tourist attractions. Foreign-funded real estate projects and low-income housing projects will not be affected. The department pointed out that since the state strengthened macroeconomic control, a great deal of land allocated for housing construction has been left idle due to a lack of funds over the last two years. It has been reported that housing completed throughout the province in the first three months of this year is only valued at RMB 9.86 billion, as compared with the 1993 figure of RMB 53 billion. (Hong Kong TA KUNG PAO 13 May 94 p 5)

Statistics Show Gap in Staff Wages in Shenzhen

According to a report by the Shenzhen Municipal Statistical Bureau of Guangdong Province, the uneven development of enterprises in Shenzhen has meant that one can find huge wage differences among staff and workers. Among enterprises in the city, the highest per capita monthly salary earned by staff and workers is RMB 3,038, while the lowest is only RMB 251, lower than the minimum wage level of RMB 285 set by the municipal labor department. A total of 54.9 percent of Shenzhen's enterprises pay their workers less than the average monthly wage level in the city, while 1.9 percent pay their workers above the minimum level. According to wage statistics from 3,561 independent accounting units in the city, the annual per capita wage of staff and workers last year was RMB 8,145 and the monthly per capita wage was RMB 679, up 14.3 percent over the year before, after taking inflation into account. (Beijing ZHONGGUO XINWEN SHE 1369 GMT 20 May 94)

Fiber-Optic Cable To Link Hangzhou, Fuzhou, Nanchang

China's longest fiber-optic cable will be laid in East China to ease the telecommunications problems there. The cable will be more than 4,000 km long and will link Hangzhou in Zhejiang Province, Fuzhou in Fujian Province, and Nanchang in Jiangxi Province. It will cost $161 million. Though the specific figures have not been decided, some of the financing will be supplied by the World Bank in the form of loans for importing sophisticated equipment. The Zhejiang portion will be 423 km long and will cost $9.6 million. Foreign financing will cover $1.84 million. The project is scheduled to start in October and be completed by the end of next year. (Beijing CHINA DAILY (BUSINESS WEEKLY) 15-21 May 94 p 4)

Computer Software Sales Reach RMB 4 Million

The annual value of computer software sales has reached RMB 4 million. There are currently 2,000 enterprises specializing in software technological development and production, and more than 800,000 professionals are involved in software development. The China Software Corporation, the biggest company in this sector, earns more than RMB 100 million annually from its software sales. (Beijing ZHONGGUO XINWEN SHE 1321 GMT 18 May 94)

Sichuan Becomes Largest Natural Gas Producing Province

Sichuan has become the largest natural gas producing province in China. The province produced 7 billion cubic meters of natural gas last year and is predicted to turn out 7.3 billion cubic meters this year, accounting for almost half of the total volume in the country. Sichuan's gas reserves have been estimated at between 7,000 and 8,000 billion cubic meters, or 60 percent of the country's total. (Beijing ZHONGGUO XINWEN SHE 1114 GMT 23 May 94)

Foreign Trade and Investment

Border Trade Slows Between Heilongjiang's Harbin City and Russia

Yang Yidian, director of Heilongjiang's Harbin City Foreign Investment Management Bureau, told reporters in Hong Kong on 23 May that Harbin's border trade with Russia has stagnated and has been on the decline this year. Harbin's overall trade was $440 million last year, of which its trade with Russia accounted for approximately 33 percent. Since Russia canceled visa exemptions for Chinese citizens on 15 January this year, border trade has dropped significantly. Yang Yidian expects a 10-20 percent increase in the city's overall foreign trade for this year, but forecast a 20-30 percent drop in its border trade with Russia. (Hong Kong ZHONGGUO TONGXUN SHE 1333 GMT 23 May 94)

Shandong Province Encourages Foreign Investment in Agriculture

Shandong Province recently introduced measures to encourage foreign businessmen to invest in the development of the agricultural sector. Foreign businessmen will be encouraged to invest their money to transform low- and medium-yield farmlands, to build and improve the agricultural infrastructure, and to vigorously develop agricultural projects earning foreign exchange. Businessmen will also be encouraged to use foreign funds to import new varieties and technology, to develop special, rare, and high-quality products, and to improve the technology used in processing, preserving, and storing farm and poultry products. A preferential tariff policy will accomodate the import of equipment and other materials needed to develop agriculture and earn foreign exchange. When a foreign firm invests $10 million in the development of barren hills and lands, a preferential tax policy will be granted according to state regulations. The province will allocate 3 million mu of shallows for the utilization of foreign capital to expedite the development of aquatic products. When a foreign firm invests in a saltwater breeding project, it will be allowed to process, store, and transport produce of the same type and will be given preferential tax treatment according to the relevant state regulations. (Hong Kong LIEN HO PAO 12 May 94 p 21)

Japanese Investment in Shandong Shows Sharp Increase

Over the past year, Shandong Province has become a key economic and trading partner of Japan. The value of import and export trade with Japan in 1993 reached $1.949 billion, an increase of 32.85 percent over 1992 and accounting for 26.3 percent of the province's total import and export value. At the end of 1993, the province had 730 projects involving $1.82 billion in Japanese investment. Some 55 projects, involving $1.22 billion, were developed with Japanese government loans and 675 projects received direct investment by Japanese businessmen. (Jinan Shandong Radio 2300 GMT 11 May 94)

Shandong Signs Cooperation Agreement With ROK Province

An economic team from the ROK's South Kyongsang Province signed a cooperation agreement with Shandong's Weihai city to set up an industrial park in the Weihai Economic and Technological Development Zone. This park will primarily seek to attract pollution-free, high-technology industries cable of earning foreign exchange. The park is designed to occupy a total area of 1.6 square km. The land-use period is contracted at 50 years. (Jinan Shandong Radio 2300 GMT 18 May 94)

Shandong Reports 150 New Joint-Venture Projects With Singapore

Over the past few years, Shandong Province has achieved rapid development in economic and trade cooperation with Singapore. In 1993 alone, it built 150 new joint-venture projects with Singapore, involving foreign capital of $390 million, showing an increase of nearly 200 percent over the sum of the previous seven years. During the first quarter of 1994, Singapore invested $100 million in Shandong. (Jinan Shandong Radio 2300 GMt 14 May 94)

Sino-Singaporean Industrial Park To Be Built in Shandong's Qingdao

Singapore's Megaway Group and the Qingdao Economic Development Company signed an agreement on 15 May to construct a $100 million industrial park in Qingdao's economic development zone in Shandong Province. The park will cover 5 square km along the Qingdao bonded zone. It will import advanced equipment, technology, and management systems from Singapore. The infrastructure of the park will cost approximately $100 million. The first phase of the construction, which will cover an area of one square km, will be completed in one year. It is expected that the overall construction will be completed in three years. The Asian Industrial Park Development Company was established to supervise the park's construction. (Beijing CHINA DAILY 17 May 94 p 2)

Agricultural Bank, Australian Firm Set Up Joint Consulting Venture

The Agricultural Bank of China and the Australian firm Hassal & Associates signed an agreement on 18 May to set up a consulting and financing joint venture, the Jinhai International Business Development and Consulting Company, in Beijing. The bank's Trust and Investment Corporation and the Jinqiao Financial Consulting Company will provide 50 percent of the investment. According to bank officials, the new venture will offer many small Australian companies business opportunities in China. (Beijing CHINA DAILY 19 May 94 p 2)

Australia, Guangdong's Zhuhai Cooperate in Building Glass Wool Plant

Zhuhai City's Aquatic Products Supply and Marketing General Company and Australia's CSR Investment (Asia) Company Ltd. signed a contract in Zhuhai on 17 May to establish the CSR Guangdong (Zhuhai) Glass Wool Products Company Ltd., a joint venture which will be located in the town of Baiqiao in Doumen County. The Chinese side will supply 40 percent of the investment in the form of land, and the Australian side will provide the funds for the remaining 60 percent. The $45-million plant, which will use modern equipment, is expected to go into operation by the end of 1995, with a production capacity of 12,000 tons of glass wool products annually. When completed, the plant will be the largest glass wool products producer in China. (Hong Kong WEN WEI PO 18 May 94 p A6)

Philippine Aluminum Group Sets Up Company in Fujian's Xiamen

The International Aluminum (Hong Kong) Limited Company, a subsidiary of the Philippines Aluminum Group International Limited Company, recently set up the wholly-owned International Aluminum (Xiamen) Limited Company in Xiamen, Fujian Province. The company will build a factory in the Xinglin Investment Area for Taiwan businessmen. The factory will have a total area of 30,000 square meters, require an investment of $8 million, and go into operation in late 1995, producing 9,000 tons of various types of aluminum products per year for markets in Southeast Asia, Hong Kong, and Macao. (Beijing ZHONGGUO XINWEN SHE 1024 GMT 21 May 94)

Beijing Contracts Construction Projects, Labor Service Abroad

Beijing Municipality has made big strides in undertaking contracted projects abroad. In 1993, it signed contracts worth $500 million, concluded business amounting to $150 million, and sent 3,000 laborers abroad, showing an increase of 28 percent, 36.3 percent, and 50 percent respectively over 1992. In addition to undertaking contract projects and labor service in Malaysia, Japan, Hong Kong, Singapore, Indonesia, the CIS, the United States, Macao, Thailand, Tunisia, and Botswana, Beijing has also developed new business partners in the United Arab Emirates, South Africa, Pakistan, and Gabon. (Beijing BEIJING RIBAO 10 May 94 p 1)

Jilin First Quarter Results in Attracting Foreign-Funded Enterprises

As of the first quarter of 1994, Jilin Province had registered 2,522 foreign-funded enterprises and introduced $2.76 billion of foreign investments. At present, Jilin has 12 joint-venture enterprises each with an investment of more than $10 million and 31 foreign-funded enterprises each with an investment ranging from $5 million to $10 million. Jilin Petrochemical Company. Ltd., a joint-venture enterprise run by the Jilin Chemical Industrial Company and the Hong Kong Lianghe Petrochemical Company, Ltd., began operation on 28 April. The company has a total investment of 1.42 billion Renminbi. The annual production quota is 35,000 tons of acrylic acid, 40,000 tons of epoxy ethane, and 60,000 tons of alcoholic ether. (Changchun JILIN RIBAO 8 May 94 p 1)

Hebei Signs Letter of Intent With Brazil

Hebei Province signed a letter of intent on five economic and trade projects with the Goias State of Brazil on 16 May. These projects include the establishment of a joint-venture tractor repairing plant in Brazil, economic and trade cooperation between Hebei Pharmaceutical Plant and a firm in Brazil, the joint processing of textile products in Shijiazhuang No.2 Cotton Textile Plant, the establishment of an agent in Brazil to promote sales of products from Shijiazhuang Silk Plant, and the processing of jeans with supplied materials at Shirun Textile Company, Ltd. (Shijiazhuang HEBEI RIBAO 17 May 94 p 1)

CITIC Hong Kong Expands Golf Course in Conghua City

Despite the central government's reported ban on the development of new golf courses, CITIC Hong Kong has signed a contract with Guangdong's Conghua City to expand a golf course and spa resort there. The project involves an investment of 1 billion yuan. The Chinese side is providing the land and the Hong Kong side is providing the capital. CITIC Hong Kong will have operating rights for 50 years. Club members come mainly from Hong Kong, Japan, South Korea, as well as from mainland China. (Hong Kong MING PAO 12 May 94 p B3)

New World Group Largest Overseas Investor in Wuhan

In the last two years, Hong Kong's New World Group has invested over 2.3 billion yuan in Wuhan to construct an airport, a 17-km airport expressway, the Wuhan Chang Jiang Road bridge, mass housing projects, and to manage hotels, transform old industries, and develop real estate development. The group has become the largest foreign investor in the city. New World is the majority shareholder in Wuhan's new Tianhe Airport, China's first joint-venture airport, which will begin operations next month. (Hong Kong MING PAO 23 May 94 p B2)

Bank of China Hong Kong Invests $470 Million in Shandong

While attending a symposium on new investment trends in Shandong, Huang Diyan, director of the Bank of China (BOC) Hong Kong and Macao Management Office, said that the BOC Group has invested $470 million to finance 200 projects in Shandong in such areas as the energy industry, communications, manufacturing, water projects, the construction of economic development zones, housing, and tourism. (Hong Kong TA KUNG PAO 21 May 94 p 17)

Hong Kong Bank Leading Foreign Lender to China

John Gray, chairman of the Hong Kong and Shanghai Banking Corporation (HSBC), says that HSBC lending on the Chinese mainland ranks first among foreign banks. At present, HSBC has five branches and four offices in China. It hopes to open more branches in mainland cities and to develop its securities and credit card businesses while focusing on corporate lending and short-term trade financing. Gray said that HSBC is ready to help overseas investors do business in China. (Beijing ZHONGGUO XINWEN SHE 1204 GMT 17 May 94)

CITIC Pacific To Expand Investment in Mainland Power Projects

Hong Kong-listed, mainland-funded CITIC Pacific will expand its involvement in energy projects in China in spite of mixed signals from Beijing on the rate of return allowed for power projects. Larry Yung Chi-kin, chairman of CITIC Pacific, said that electricity capacity was desperately needed by China and that the 15 percent cap on investment returns was too low. Yung said that power projects in which CITIC Pacific was involved in China had a return of more than 15 percent. The group operates power stations in Ligang, Jiangsu, and Xinli, Henan, in addition to holding a 25 percent share of a power station in Shanghai's Pudong New District. Mr. Yung also said that CITIC Pacific's parent company, CITIC Hong Kong, was considering plans to enter the oil refining business, with potential projects in Shandong and the Pearl River Delta. (Hong Kong SOUTH CHINA MORNING (BUSINESS) POST 24 May 94 p 2)

Foreign Firms Consider Relocation in Face of Rising Hong Kong Costs

Multinational companies are seriously considering moving all but their essential China-related business out of Hong Kong to escape soaring commercial and residential rents and rising staff costs, according to Mark Bernard, a director of Chesterton Petty realtors. Mr. Bernard said the business community was at "the end of its tether" and Chesterton Petty was receiving 40 calls a month from corporations moving to Singapore or other regional centers, where rents were at least 50 percent cheaper than Hong Kong. In contrast, six months ago the number of firms seeking to move was one or two, he added. (Hong Kong SOUTH CHINA MORNING POST (PROPERTY POST) 18 May 94 p 4)

Hong Kong Inflation Falls to 7.7 Percent in April

Government statistics show that slower increases in food prices brought inflation down to 7.7 percent in April for an average of 7.4 percent for the first four months of the year. However, concerns persist that a tight labor market and limited land supply will continue to fuel inflation for the rest of the year. Anthony Chan, regional economist at MeesPierson Securities, said that he did not expect inflation to show a significant decrease because "asset price-inflation has an impact on various components of the Consumer Price Index" and the tight labor market showed that the economy was close to full capacity. (Hong Kong EASTERN EXPRESS 24 May 94 p 26)

Haikou Bonded Area Introduces Preferential Investment Policies

The Haikou bonded area in Hainan has recently introduced six preferential policies to encourage investment. 1. Chinese and foreign businessmen will be able to invest freely in the bonded area and launch construction projects where they have obtained land-use rights. They are also allowed to offer real estate projects in the bonded area to other businessmen for investment and to transfer, lease, or mortgage their real estate. 2. Enterprises in the bonded area do not have to obtain import-export licenses for their goods unless otherwise specified. Products whose raw materials come from other areas and whose value has increased by over 20 percent through processing in the bonded area can be exported as the bonded area's products. 3. Building materials, production and management equipment, fuel used in production, and a reasonable amount of communication equipment imported by enterprises for their own use in the bonded area are exempt from customs duty. 4. Enterprises in the bonded area are allowed to engage in foreign trade. 5. Insurance and financial firms in the bonded area are allowed to deal in foreign exchange and settle their accounts in foreign currencies. 6. Businessmen in the bonded area are allowed to come and go freely. (Hong Kong WEN WEI PO 12 May 94 p C3)

Fuzhou State-Owned Firms Receive Foreign Capital

According to Fuzhou Vice Mayor Sun Haishan, 53 percent of the city's state-owned enterprises receive foreign financing. The introduction of foreign capital is one of the four methods the city is using to reform its state-owned enterprise system. Last year, 28 enterprises signed contracts to jointly operate 30 projects requiring a total investment of $82 million, of which $25 million was to be contributed by foreign partners. After receiving foreign financing, most state-owned enterprises achieved marked improvements. One large state-owned light industrial enterprise, which suffered a total loss of RMB 170 million over the last 10 years of operation, made a profit of over RMB 1 million in the year in which it received foreign capital. (Hong Kong WEN WEI PO 18 May 94 p B16)

Taiwan

Trade Deficit With Japan Expected To Hit $15 Billion for 1994

Taiwan's trade deficit with Japan has continued to worsen and is expected to hit $15 billion this year, according to the Board of Foreign Trade. The boards believes Taiwan's dependence on Japanese-produced key component parts prolongs the trade imbalance problem. Last year, the value of Taiwan's imports from Japan increased by 6.53 percent from the previous year and accounted for 30.08 percent of the country's total import value. (Taipei CHING-CHI JIH-PAO 17 May p 13)

Some Restrictions on Investment in PRC To Be Lifted

The Industrial Bureau under the Ministry of Economic Affairs has worked out a plan to open 633 areas for investment in the PRC. The 633 areas include textile products, machinery, farming machinery, information products, and automobile and locomotive parts. In addition, Taiwan also plans to permit imports of 60 semifinished products, including raw materials and medicine, from the PRC. (Taipei CHING-CHI JIH-PAO 6 May 94 p 2)

Indirect Investment in PRC Continues in First Quarter

According to the Investment Examination Commission under the Ministry of Economic Affairs, in the first three months of 1994, the government approved 314 indirect investment projects in the PRC by Taiwan enterprises, with a total investment amounting to $246 million. Since the government lifted the ban on indirect investment in the PRC five years ago, some 10,144 projects have been approved, with a total investment of $3.836 billion. The main areas in which Taiwan enterprises invest are electronic and electrical products, plastic products, food and beverages, precision tools and machinery, and basic metal products. Shanghai remains Taiwan businessmen's first choice for investment, followed by Dongwan and Shenzhen in Guangdong Province, Tianjin, and Xiamen. (Taipei CHING-CHI JIH-PAO 8 May 94 p 2)

Meeting on Economic Ties With Italy Held in Taipei

The Sino-Italian Joint Committee of Industry and Commerce held its first meeting in Taipei on 10 May. The Taiwan delegation told the Italian delegation about Taiwan's policy to turn Taiwan into the operation center of the Asia-Pacific region. The Italian delegation expressed the Italian Government's wish to sign an investment protection agreement, an agreement on avoidance of dual taxation, and an agreement on protection of intellectual property rights with Taiwan. The meeting may bring about a breakthrough in Taiwan-Italian economic and trade relations. (Taipei CHING-CHI JIH-PAO 11 May 94 p 9)

Registered Investments, Machinery Imports Down in First Quarter

The Council for Economic Planning and Development [CEPD] on 11 May announced that in the first quarter of this year, the amount of investment registered by newly established companies dropped 38 percent from last year's 256.7 billion NT [New Taiwan] dollars to 160 billion NT dollars. Money spent on machinery imports dropped 1.5 percent from the amount spent last year. Last year, Taiwan's export growth rate was only 4.2 percent, the lowest among the four little dragons. A CEPD official believes that "Taiwan's business investment in the PRC and the Southeast Asian region have affected the competitive edge of Taiwan exports." (Taipei CHING-CHI JIH-PAO 12 May 94 p 2)

SOUTH KOREA

FEATURE: Government Puts Brakes on Samsung Auto Venture

The ROK government, following the recommendation of an economic policy think tank and its own guidelines on industrial specialization, has "informally" told Samsung to shelve its plan to build automobiles, the South Korean press reported. The decision was made despite polls showing public support for the venture, and Samsung's conclusion of a favorable technology transfer agreement with a Japanese automaker. "Knowledgeable sources" say the setback is temporary, and that Samsung will be able to carry out its plan within the next few years.

Samsung's plan to manufacture automobiles was rejected by the ROK Government, according to press reports, ending months of speculation on the outcome of Samsung's controversial bid. The government's decision followed a finding by the Korea Institute for Industrial Economics and Trade (KIET) that Samsung's entry would impact negatively on the domestic industry. The government was also concerned over the credibility of its highly publicized industrial specialization policy, which limits to three the main fields in which a conglomerate can participate, the 10 May MAEIL KYONGJE SINMUN (MKS) reported.

Samsung's plan to enter the auto industry first surfaced in the ROK press on 14 June 1993, when MKS and HANGYORE SINMUN reported that the group was "seriously considering" going into automobile production, despite a promise made a year earlier to limit its involvement to commercial vehicles. Both newspapers suggested that the move would be viewed as a "test case" of the administration's policy to limit the expansion of conglomerates. At the time, Samsung had already chosen a factory site, was hiring personnel, and was seeking a foreign partner for technical cooperation, the two papers noted.

On 17 January, MKS reported that the Korea Development Institute (KDI), a policy advisory group with close ties to the ROK Government, agreed in principle with Samsung's bid to enter the passenger car market. KDI had maintained that increased exports would compensate for any inefficiencies brought about by overlapping investment and further argued that the government should support the domestic auto industry with positive programs and not subject it to "unreasonable restrictions." In its 26 April report, KIET acknowledged that Samsung's venture would, over the long run, result in greater efficiency and better technology for the ROK auto industry, but that the near-term effects would "shock" existing automakers and cause a decline in product competitiveness, the 27 April MKS reported.

Specifically, KIET concluded that Samsung's involvement would delay the development of unique ROK models, have a negative effect on efforts to indigenize technology, raise costs as a result of the competition to hire technicians, inflate the price of auto parts, and waste investment capital, the newspaper reported. MKS opined that KIET's report was neither a "yes" nor a "no" but rather "seemed to imply" Samsung should wait three to four years before implementing its plan.

Persuaded by KIET's arguments, the ROK Government exercised its veto by threatening to deny Samsung a technology import license which the Ministry of Trade, Industry, and Energy (MOTIE) issues for technology transfers with foreign companies. According to the 29 April

MKS, Samsung had selected Japan's Nissan Motors for technical cooperation because of its willingness to transfer core technology which would allow Samsung to compete in the world market. Mindful of MOTIE's priorities, Samsung chose Nissan over Toyota, which was also being considered, because the latter imposed export restrictions that Nissan was willing to forego. Another factor was Toyota's earlier abrogation of a technology transfer agreement with Daewoo for a more lucrative venture in China, which made a lasting impression on South Korean officials, MKS noted.

According to the 29 April MKS, Samsung sought to lay the groundwork for a positive ruling by emphasizing that its agreement with Nissan was the "most favorable" it had ever signed with a foreign company. Besides putting no restrictions on where the cars could be sold, Nissan authorized Samsung to make engineering changes and agreed to sell its best technology, including the VQ engine and QT suspension, while offering body and chassis designs free of charge. According to MKS, Samsung planned to manufacture a 2,000cc "next generation" car, which Nissan is now developing, and three new models which would be jointly developed. Initial production was planned at 50,000 units annually.

Notwithstanding these efforts and a Korea Gallup Poll showing public support for the project (11 May MKS), the ministry "informally" notified Samsung it would deny the transfer request if it were submitted, the 10 May MKS stated. According to a "high MOTIE official" cited in the same paper, the government's decision was based on KIET's finding that Samsung's entry would harm existing manufacturers. The newspaper also cited a Blue House source who claimed that most officials believed Samsung's plan would "destroy" the ROK auto industry. The MOTIE official reportedly said his ministry would postpone a formal announcement to give Samsung a chance to back out voluntarily.

According to the 12 May MKS, Samsung stated it will press ahead despite the rejection. The newspaper quoted a "highly placed source" in Samsung's secretariat (the group's executive body responsible for overall policy and planning) as saying that "there is no change at all in the group's intention to move into the passenger car business" and that the firm will use "all necessary means" to accomplish this. The same source added that Samsung recognizes that its goals are not entirely consistent with the administration's policy on industrial specialization, but that these differences can be narrowed. Samsung reportedly is watching the government's moves closely so as to "respond to its particular concerns."

Citing "knowledgeable sources," the 12 May MKS reported that Samsung will delay its technology transfer request "until things settle down." Samsung planners are now marshaling arguments against the decision, including an assertion that "it goes against the principle of equity" to prohibit a domestic firm from building autos when foreign manufacturers are allowed to sell their cars in the domestic market. According to the MOTIE official cited above, the government's decision, in any case, may only be "temporary." Another "informed source" reportedly stated "it is necessary to keep in mind that in 1992 when Samsung got into commercial vehicles they were given permission only after a year's delay."

The source then "implied indirectly" that Samsung would be producing its cars "during the present administration."

FEATURE: Shipbuilders Face Japanese Competition, Foreign Trade Pressure

According to recent ROK press reports, Japanese shipbuilders are starting a "war" for shipbuilding orders in order to once again become the top shipbuilding nation. At the same time, Japan is launching a "counteroffensive" in international arenas to try to stop the expansion of ROK shipbuilding facilities. The ROK press has reported that South Korea is also coming under pressure from other advanced countries with regard to these plans. However, some officials connected with the ROK shipbuilding industry point out that many of the expansion projects are already too far under way to be stopped.

On 12 March, 21 top leaders in the South Korean and Japanese shipbuilding field met in Tokyo. According to the 4 May CHUGAN MAEGYONG, the two sides had held 15 such meetings since 1982, working together and sharing information. The meeting originally was to be held last fall, but was delayed due to internal discord among ROK shipbuilders over the issue of expanding shipbuilding facilities. Meeting participants included Song Yong-su, chairman of the Korea Shipbuilders Association and of Hanjin Heavy Industries; Kim Chong-kuk, chairman of Hyundai Heavy Industries; Yun Yong-sok, chairman of Daewoo Shipbuilding and Heavy Machinery; Yi Hae-kyu, chairman of Samsung Heavy Industries, Kwon Yong-ha, executive director of the Korea Shipbuilders Association; and Goda Shigeru, chairman of the Shipbuilders Association of Japan. CHUGAN MAEGYONG noted that the atmosphere at the meeting was very "chilly," and that no formal statement was issued at the meeting's end. The 17 March HANGUK KYONGJE SINMUN described the meeting as a "defensive and offensive battle" over ROK shipbuilders' expansion plans. During the talks, the Japanese side tried to "pry" into the ROK plans, but offered no "encouragement," CHUGAN MAEGYONG reported. The head of Japan's Namura Shipbuilding reportedly said that ROK shipbuilders should "give up" the shipbuilding "battle." According to the journal, Japan seems "oversensitive" to South Korean plans because of ROK shipbuilders' growing competitiveness. As ROK shipbuilders rapidly improve their technological level, the relative superiority of Japanese shipbuilders is "notably weakening." CHUGAN MAEGYONG observed that, if South Korea does move ahead with its expansion plans, there will be an unavoidable "championship match" between ROK and Japanese shipbuilders.

HANGUK KYONGJE SINMUN noted that Japan is responding to the situation by aggressively pursuing new orders abroad and reducing costs domestically. CHUGAN MAEGYONG commented that Japanese shipbuilders are starting a "war" for shipbuilding orders in order to once again secure the top position. Japan lost the title to South Korea in 1993, after holding it for more than 35 years. The journal reported that the strong yen and high labor costs were factors in Japanese shipbuilders' loss of competitiveness.

According to HANGUK KYONGJE SINMUN, labor costs account for more than 20 percent of the cost of a Japanese-built ship. The daily reported that in 1993 Japanese-built ships were priced 10 percent higher than ROK-built ships. CHUGAN MAEGYONG reported that Japanese shipbuilders had been "relaxed," because they expected international ship prices to increase this year. However, prices have actually fallen. Thus, in order to erase last year's "deficient" performance, Japanese builders are starting a price "offensive." HANGUK KYONGJE SINMUN noted that Japan has been able to reduce production costs somewhat by rationalizing management and has recently won orders by offering lower prices. The paper calculated that Japan received orders totalling 1.29 million gross tons in January alone, while ROK shipbuilders only received orders totalling 340,000 gross tons for all of January and February.

In addition to cutting costs and fighting for international orders, CHUGAN MAEGYONG reported that Japan is launching a "counteroffensive," using forums such as research institutes and the OECD shipbuilding committee to highlight the "recklessness" of ROK shipbuilders' expansion plans. For example, a report from the Nomura Research Institute called South Korea's boom in shipyard expansions "a dangerous gamble," warning that it will lead to excess capacity in the latter half of the 1990's. According to the 22 March HANGUK KYONGJE SINMUN, on 21 March, the ROK Ministry of Trade, Investment, and Energy (MOTIE) noted that signs of trade friction were appearing in the shipbuilding industry, as Japan and the European Union opposed ROK shipbuilders' expansions. The paper said that pressure from advanced nations became concentrated during the March meeting in Tokyo of ROK and Japanese shipbuilders, as well as at a shipbuilding meeting attended by South Korea, Japan, and the European Union, on 14 March, and at the OECD shipbuilding committee, held in Paris from 14 to 18 March. According to HANGUK KYONGJE SINMUN, at the OECD meeting Japan and the European Union exhibited an "uncompromising" attitude by adopting a joint statement opposing the ROK expansion. Even the United States brought up the issue in its statement. The paper concluded that the expansion issue has become the largest issue in the international shipbuilding arena.

Despite the international pressure against South Korean expansion plans, the ROK press has noted that halting the projects would be difficult. Ku Pon-yong, chief of MOTIE's shipbuilding office, observed that some industry representatives feel trade pressures might "soften" if shipbuilders "regulated themselves" regarding the expansion issue. However, Ku added the expansions already have progressed to the point where it would be difficult to avoid international trade pressure. Some industry officials agree that it is "too late" to entrust the issue to self-regulation. CHUGAN MAEGYONG explained that expansion work at Hyundai, Samsung, and Halla--some of the major ROK ship builders--is already more than 50 percent completed. Halting the investment (which amounts to about 400 billion won ($500 million) per company) would result in enormous investment losses for the companies, HANGUK KYONGJE SINMUN calculated. In addition, the government would have to assume an enormous financial burden, because it would be forced to compensate firms for their lost investment.

Growth Rate in Crude Oil Imports Slows in First Quarter

In the first quarter of 1994, South Korea imported 150.1 million barrels of crude oil, an increase of 1.2 percent over the 148.3 million barrels imported in the first quarter of 1993. This increase is much lower than the 10-percent increase seen in the first quarter over the past two to three years. The slower growth rate comes as domestic oil consumption declines. South Korea consumed 109 million barrels of oil in January and February, a 6.2-percent increase over the 103 million barrels consumed in the same period in 1993. By comparison, oil consumption in the first two months of 1993 ROK oil consumption rose 12.5 percent over the first two months of 1992. Most of the crude oil imported in the first quarter--79.8 percent--came from the Middle East, while 15.7 percent came from Southeast Asia, and 4.5 percent came from North America and Africa. (Seoul HANGUK KYONGJE SINMUN 19 Apr 94 p 9)

Automobile Exports to Some International Markets Stalled

Exports of ROK automobiles to China, Turkey, Iran, and Pakistan, which totalled more than 100,000 in 1993, have almost halted recently. Some of this seems to be due to reinforced import controls in China, an economic crisis in Turkey, and foreign currency shortages in Iran. Last year South Korea exported 22,100 automobiles to China, but exports have virtually stopped after several hundred cars were exported at the beginning of this year. Hyundai Motors and

Daewoo Motors did not export any cars to China in April, while Kia Motors only shipped 23 cars. (Seoul MAEIL KYONGJE SINMUN 21 May 94 p 9)

Exports to Russia Increasing

According to the Korea Trade Promotion Corporation [KOTRA], ROK exports to Russia in the first four months of 1994 totalled $356 million, a 104.8-percent increase over the same period in 1993. KOTRA expects this year's exports to Russia to top the $1-billion mark. Exports of television sets, VCR's, refrigerators, video tapes, telephone exchanges, and refined petroleum have already exceeded last year's totals. (Seoul KYONGHYANG SINMUN 26 May 94 p 9)

Exports to China Decreasing

ROK exports to China in April showed a year-to-year decrease for the first time in 50 months. According to the Ministry of Trade, Industry, and Energy, in April the volume of ROK exports to China decreased by 2.3 percent compared to April 1993's volume of $540 million. As of April, year-to-date exports to China had increased by 11.7 percent over the same period in 1993, much lower than the 94.1-percent increase in 1993. Steel and auto exports also decreased in April. Steel exports fell due to Chinese import controls and to increasing ROK demand. Auto exports fell after the Chinese Government banned the import of automobiles through the informal channels which ROK companies had utilized. (Seoul MAEIL KYONGJE SINMUN 21 May 94 p 1)

Daewoo Securities, Cheil Bank To Invest in Chinese Stock

Daewoo Securities and Cheil Bank, in collaboration with other foreign financing institutions and corporations, will invest in the Chinese stock market later this year. A total of 31 institutions--including some from China, Britain, Hong Kong, and Malaysia--will take part in the venture and invest $200 million in the market. The enterprises will meet in Beijing on 29 May to establish the CEIM (China Enterprise Investment Management Company) with paid-in capital of $25 million. Daewoo and Cheil will have stakes of 5 percent ($1.25 million) and 2 percent ($500,000), respectively. Chong In-yong, former ROK deputy prime minister and current vice president of the Asian Development Bank, will serve as CEIM chairman, while Kim Chang-hui, president of Daewoo Securities, serves as vice chairman. (Seoul MAEIL KYONGJE SINMUN 25 May 94 p 18)

Hyundai Completes Offshore Natural Gas Facility

On 19 May Hyundai Heavy Industries completed its offshore natural gas production platform in China's Yacheng field. The facility cost $18 million. Beginning in March 1995, Hyundai plans to start building a $15-million facility to refine natural gas from the Yacheng area. (Seoul MAEIL KYONGJE SINMUN 20 May 94 p 11)

Hyundai To Build Steel Container Plant in Qingdao, China

Hyundai Precision & Industry will invest up to $20 million to build a steel container plant in Qingdao, China. The plant, named the Hyundai-Qingdao Container Manufacturing Company, will have an annual production capacity of 40,000 20-foot equivalent units. The plant will make finished products, as well as supply its own parts. Hyundai is collaborating on the plant with Samsung Precision Industry, Chinwon Industrial Company, and Taewon Machinery Industry Company. (Seoul MAEIL KYONGJE SINMUN 25 May 94 p 11)

Tongyang To Build Steel Tube Plant in Shanghai

Tongyang Iron Pipe Company will build a large-caliber steel pipe plant in Shanghai, China. Tongyang, which currently exports $15 million of the tubes to China every year, has decided to build a joint venture plant there. The joint venture plant will have an annual capacity of 200,000 tons of large-caliber steel tubes. Tongyang will invest about $50 million in the plant, which will be located in Jinshan District, Shanghai. (Seoul MAEIL KYONGJE SINMUN 14 May 94 p 9)

Daewoo To Take Over Three Sudanese Textile Corporations

Daewoo Group will take over three state-run textile corporations in Sudan, using funds supported by the Export-Import Bank. On 17 May, the Export-Import Bank approved a 5.5-percent $70-million loan, which will mature in eight to 10 years. The loan will cover much of Daewoo's $100 million cost for the projects. Daewoo will take over a cotton spinning plant, a spinning and weaving plant, and a leather processing plant. (Seoul MAEIL KYONGJE SINMUN 19 May 94 p 2)

Lucky Metal Advances Into European Market

Lucky Metal has registered its gold bars at the London Bijou Metal Association (LBMA), opening the door to the European market for the company. After comprehensive testing by the LBMA, Lucky registered its brand for trading on the LBMA market. Lucky Metal produced 32 tons of pure gold in 1993 and exported 22 tons to Southeast Asia. (Seoul MAEIL KYONGJE SINMUN 26 May 94 p 11)

Hanguk Pharmaceutical Exports to Chile, Brazil

Hanguk United Pharmaceutical Company recently signed contracts to export pills and intravenous pharmaceuticals to Chile and Brazil. The $2 million export contracts cover 17 pharmaceutical items, including anti-cancer medicines, antibiotics, and ulcer medicines. In August, the company will ship $600,000 worth of pharmaceuticals to Chile and $300,000 to Brazil. The company is also negotiating shipping dates with Argentina and Guatemala. (Seoul MAEIL KYONGJE SINMUN 23 May 94 p 20)

SOUTHEAST ASIA

INDONESIA

Prospects For Renewed Economic Ties With Iraq

Indonesian Trade Minister S.B. Joedono and Iraqi Foreign Minister Mohammad Sa'id al-Sahhaf recently discussed renewing economic ties in anticipation of the lifting of the UN embargo on Iraq. Indonesia's exports to Iraq had reached $83.3 million in 1990, but amounted to only $500,000 in 1991 and 1992. Imports from Iraq also dropped from $177.8 million in 1990 to $600,000 in 1991. Imports rebounded slightly in 1992 reaching $1.1 million. Prior to the embargo, Indonesia had exported tea, pharmaceuticals, garments, and glass products to Iraq, and imported crude oil from Iraq. (Jakarta BISNIS INDONESIA 20 Apr 94 p 5)

Indonesian-Malaysian Consortium Planning Thermal Power Plant

An Indonesian-Malaysian consortium is planning to build a coal-fired thermal power plant complex in South Sumatra, Indonesia. The project-- undertaken on a "build, own, and operate" basis--is a joint venture between Bukaka Teknik, a major Indonesian engineering firm, Sikap Project Management Systems, a Malaysian firm that builds power plants, and Worldwide Holdings, a Malaysian financial and hotel conglomerate. Bukaka will hold a 30 percent stake and Sikap and Worldwide will each have 35 percent stakes. This will be the first large-scale infrastructure project undertaken by private companies from the two countries.

The first phase of the project involves the construction of two 150,000-kw generating plants in Bukit Assam, South Sumatra, at a cost of about $340 million. Construction is scheduled to begin in early 1995, and the plants will be in operation in 3 years. The electricity generated will be sold to Indonesia's state-owned electricity corporation.

In the project's second phase, two additional generating units, each with a capacity of 500,000 kw, will be built at another location in Sumatra at a cost of $550 million each. The completion target date is the year 2000. Electricity from these units will be transmitted via underwater cable to Java and through cables under the Malacca Strait to Malaysia. (Tokyo NIKKEI SANGYO SHIMBUN 11 May 94 p 3)

Nation Becomes Third Largest Coal Exporter

Ambyo Mangunwijaya, president of state-owned P.T. Bukit Asam Coal Mining Industry, said that Indonesia is now the third largest coal exporter in the world after Australia and South Africa. He said Indonesia's coal production has increased sharply over the last four years from 8.7 million tons in 1989 to 27 million tons in 1993 and that exports soared from 2.7 million tons to more than 17 million tons in the same period. He noted that Bukit Asam has doubled its output in South Sumatra to 10 million tons a year with an additional investment of $340 million. (Jakarta THE JAKARTA POST 6 May 94 p 1)

LAOS

Thai Land Development Venture Division of Profits

The Thai Hemarat Land Development Public Company has entered into a joint venture with Laos to develop an industrial estate. The project will cover an area of 960 hectares and require an investment of $160 million. The entire project will be completed in nine to ten years. During the first 25 years, the company will get about 70 percent of project's profits with the remaining 30 percent going to Laos. From the 26th to the 35th year, the company will get 40 percent while Laos will take 60 percent; from the 36th to the 45th year, the company will get 60 percent, while Laos will take 40 percent; and from the 46th year on, Laos will take over the entire industrial estate. (Bangkok Voice of Free Asia 1030 GMT 23 May 94)

MALAYSIA

Technology Findings To Be Commercialized

The Malaysian Technology Development Corporation (MTDC) is in the process of commercializing the country's 24 latest technological discoveries, Science, Technology, and Environment Minister Datuk Law Hieng Ding said. He noted that the MTDC was looking for local and international markets. Among the technological discoveries are destruction-free nuclear test equipment and a vaccine for a type of chicken disease. Seven technologies had been commercialized over the past year, he said. (Kuala Lumpur BERNAMA 0640 GMT 12 May 94)

Japan To Establish Fiber Optic Cable System

Telekom Malaysia has awarded NEC Corp. of Japan a $170-million contract for a 2,332-km submarine fiber optic cable system, scheduled for completion in July 1995. The project will link peninsular Malaysia (Mersing, Johor) with Sarawak (Kuching, Mari, Bintulu), Sabah (Kota Kinabalu), and Labuan. Tan Sri Mohd Rashdan Baba, chairman of Telekom, said that the system will improve the clarity of voice transmissions and reduce distortions in data communication. Rashdan also said that the submarine fiber optic cable system, the first amplification system for Southeast Asia, will meet Malaysia's telecommunications needs for the next 10 years. (Kuala Lumpur BERITA HARIAN 22 Apr 94 p 8)

SINGAPORE

Line To Get Tankers, Container Ships by 1996

Eight new ships--two tankers and six container ships-- will be delivered to Neptune Orient Lines (NOL) over the next three years at a cost of $512.5 million, according to NOL chairman Herman Hochstadt. The new ship construction is part of NOL's fleet renewal program to reduce the fleet's average ship age to 7.9 years. The industry average is 11.6 years. NOL's fleet, including those on order, totals 64 vessels with a combined tonnage of 3.3 million deadweight tons. The group now has 26 container ships, seven product and general cargo vessels, and 12 crude oil tankers. (Singapore THE STRAITS TIMES 13 May 94 p 47)

THAILAND

Exports Increase 19.7 Percent, Overall Economy 'Satisfactory'

According to a report on the economy presented to the Council of Economic Ministers by the Bank of Thailand (BOT) and the National Economic and Social Development Board (NESDB), Thailand's overall economic performance remained satisfactory. Exports during the first quarter of this increased by 19.7 percent compared to the same period last year. According to the BOT, foreign markets--especially the United States and the Asia-Pacific region--are major factors accounting for the expansion of exports. The NESDB said the inflation rate during the first quarter was 4.8 percent, compared to 3.3 percent during the same period last year. (Bangkok Radio Thailand Network 0000 GMT 24 May 94)

Rice Exports, Earnings Increase in First Quarter

Rice exports in the first quarter increased by 19.55 percent in quantity and 56.3 percent in earnings over the same period last year. A total of 1,573,533.3 tons of rice worth $580 million was exported between January and April, up from 1,316,175.78 tons worth $371 million last year. Japan has become the major buyer of Thai rice, purchasing a total of 758,098 tons since October last year, causing a steady increase in domestic prices. The price increase has affected Thailand's exports of low grade rice as buyers of low grade rice have turned to countries such as Vietnam. However, less rice was exported in April because of the rising prices. Only 285,619.76 tons of rice were exported last month, as compared to 349,076.56 tons in April 1993. (Bangkok BANGKOK POST 24 May 94 p 24)

VIETNAM

Draft Labor Law Recognizes Right To Strike

According to Hoang Minh Chuc, vice chairman of the Vietnam General Federation of Labor, the draft labor law, which will be presented to the spring session of the National Assembly, recognizes workers' right to strike, but only when negotiations are deadlocked. Workers at facilities such as hospitals, utilities (water and electricity) and enterprises essential for the economy such as oil, gas, and communications will not be allowed to strike. This draft law is the result of three years of study of the labor laws of France, Iraq, the old Soviet Union, and the Philippines and the labor law under the former Vietnamese Emperor Bao Dai. (Hanoi THOI BAO KINH TE VIET NAM 27 April 94 p 3)

Economic Courts To Start Operations in July

Vietnam's economic court system will start operations in July 1994. The courts will have two main functions: to resolve disputes and to declare enterprises bankrupt. The courts will be part of the People's Court system and will be established at both the provincial and national levels. The development of the market economy has led to problems with enterprises that must be properly managed. Economic disputes were previously handled by a government economic arbitration organization. (Hanoi THOI BAO KINH TE VIET NAM 27 April 1994 p 8)

Trends in Japanese Investment, Aid Described

Trade between Japan and Vietnam amounted to $1.45 billion in 1993 accounting for 23 percent of Vietnam's external trade. As of the first quarter this year, Japan also ranks sixth among foreign investors in Vietnam, with 53 projects and some $475 million in registered capital. Japanese investment in Vietnam is expected to increase strongly in 1994. Japanese companies have been negotiating with Vietnamese partners on major investment projects in cement, steel production, as well as oil, gas, and minerals exploration. They are also investigating investment possibilities in export processing zones and industrial parks in Hanoi, Haiphong, Hon Gai, Ho Chi Minh City, Dong Nai, and Vung Tau. Some projects are reportedly worth $100-$200 million each. SAIGON GIAI PHONG commented that economic cooperation between the two countries is still low relative to their potential.

Japan is also the largest source of development assistance to Vietnam giving approximately $1 billion, of which $76 million is gratis aid and the rest is soft loans. In fiscal year 1993, Japanese development assistance to Vietnam amounted to approximately $550 million. (Ho Chi Minh City SAIGON GIAI PHONG 20 April 94 p 2)

Navy Company, Japanese Counterpart Form Joint Venture

The Haiphong navy company Hai Thanh under the Ministry of Defense and the Japanese company Kotobuki Holding Ltd. have formed a 40-year joint venture to build and operate a five-star hotel in Ho Chi Minh City. Licensed in December 1993, the "Hako" joint venture is capitalized at $46.1 million. The Japanese partner will contribute 70 percent of the prescribed capital. (Hanoi QUAN DOI NHAN DAN 18 Apr 94 p 3)

List of BOT Infrastructure Construction Projects

The Vietnamese Government has drawn up a list of twelve infrastructure construction projects to be built by private foreign investors under its "build, operate and transfer" (BOT) system. The government's goal in designating specific power plants, expressways, and other construction as BOT projects is to expand the use of foreign funds and accelerate the pace of economic modernization. The existence of the list was revealed by people from "U.S. engineering circles" whose participation the government sought.

There are four BOT power-generation projects under the jurisdiction of the Energy Ministry: a 200-megawatt (mw) Can Tho thermal plant on the Mekong River, a 120-mw Kontum hydroelectric project in the Central Highlands, a 360-megawatt Ban Mei hydroelectric plant outside Hanoi, and a 1,200-mw coal-fired plant in Quang Ninh.

Highway construction projects are the Ho Chi Minh City expressway, the Can Tho bridge on Highway 1, and bridges for expressways to be built in Haiphong, Quang Ninh, and Ho Chi Minh City. Three Construction Ministry projects will be selected from among plans for waste treatment facilities, waterworks, and other projects in Vietnam's largest cities.

According to "engineering industry sources," French companies are preparing feasibility studies for the Ho Chi Minh City expressway, while a Singapore consortium is studying construction of some of the bridges. With the lifting of the U.S. embargo, "the government has also presented the list to American firms." (Tokyo NIKKEI SANGYO SHIMBUN 17 May 94 p 2)

Hanoi Prison To Be Singaporean Hotel Venture

Hanoi's Hoa Lo Prison will soon be replaced by the Hanoi Tower Center in a 45-year joint venture between the Hanoi Civil Construction Company and the Singaporean Buron Engineering Company PTE. Ltd. The joint venture is capitalized at $33.2 million. Prescribed capital is $20.2 million. The Vietnamese partner will contribute 24 percent and grant the venture land use rights for 45 years. The Singaporean partner will contribute $15.5 million, or 76 percent. Part of Hoa Lo will be preserved as a historic site. (Hanoi THOI BAO KINH TE VIET NAM 20 April 94 p 6)

Thai Bank, Conglomerate in Partnership With Agriculture Bank

A memorandum has been signed between the Vietnam Agriculture Bank, Thailand's Siam Commercial Bank Ltd. and the Charoen Pokkhaphan Group Ltd. establishing a 20-year joint venture bank. Vina Siam Bank has a prescribed capital of $15 million, of which the Vietnamese partner will contribute 34 percent and the two Thai partners 33 percent each. Vina Siam Bank intends to serve Thai investors, whose presence in Vietnam continues to grow. (Hanoi THOI BAO KINH TE VIET NAM 27 Apr 94 p 4)

French Bank Loans to Businesses

Credit Lyonnais provided loans totalling $26 million in the first quarter of this year, with $10 million more promised. Also in this period, deposits in the bank's two branch offices in Hanoi and Ho Chi Minh City reportedly totalled about $19 million. In 18 months of operations, Credit Lyonnais has given mostly short-term loans to hundreds of businesses, joint ventures, and individuals, with priority given to those buying farm products for export and importing materials for domestic production. In the coming period, the bank will extend more loans to projects to encourage European investors to come to Vietnam. (Hanoi VNA 1436 GMT 16 May 94)

52 Foreign Investment Projects in Agriculture Licensed

Fifty-two foreign investment projects in agriculture have been licensed to date with a total capital of $114.6 million. Most of these are concentrating on building and modernizing establishments for the export of farm products and food processing. One of the more prominent projects is the enlargement of the Lamson Sugar Plant, a $50 million joint venture with a British company, which will enable the plant to raise its production capacity to 6,000 tons of cane per day. (Hanoi VNA 0615 GMT 17 May 94)

Early 1994 Export Index Reported

The export index for the first four months of 1994 reached $940 million, an increase of 17 percent compared with the corresponding period last year. It is projected that in the second quarter, the average export index will reach $300 million a month. (Hanoi Voice of Vietnam 1100 GMT 16 May 94)

Malaysia To Help Build Export Processing Zone

The State Committee for Cooperation and Investment has issued a license for the construction of the SRV's sixth export processing zone (EPZ) named Noi Bai-Soc Son on the outskirts of Hanoi. This EPZ will be built on 100 hectares of land by the Hanoi Industrial Construction Company and the Renong Group of Malaysia with a total investment of $20.4 million. The

Vietnamese side will contribute 30 percent of the authorized capital. The Noi Bai EPZ will specialize in the manufacture of high-quality electronic goods. (Hanoi VNA 1450 GMT 13 May 94)

More Foreign Projects Licensed in April

In April, the State Committee for Cooperation and Investment (SCCI) granted licenses to 20 foreign investment projects with a total capital of $262 million. This brings to 90 the number of projects licensed in the first four months of this year with a combined capital of $1.6 billion. The most notable projects licensed last month include an oil product contract capitalized at $55 million, the Coca Cola-Ngoc Hoi soft drinks project at $20 million, the Hue Beer Joint Venture Company at $24.3 million, and the Sai Gon Airport joint venture hotel at $24 million. The SCCI made it known that 72 more projects with a total capital of $1.4 billion are under its consideration. Half of the projects under consideration are medium and big ($10 million or more) ones. Last month the SCCI withdrew licenses from 14 projects. As of late April 1994, the number of foreign investment projects in operation in Vietnam was around 770. (Hanoi VNA 1459 GMT 13 May 94)

UK Firm To Build Hanoi Trade Center

A license has been issued by the State Commission for Cooperation and Investment for the Hanoi Trading Center Company. The company is a joint venture between the Hanoi Trading Company and a British company. The venture will build a trade center in Hanoi comprising an international shopping complex, office block, residential units, and restaurants. The total capital of the company is $41 million, with $14 million authorized. The Vietnamese side will contribute 30 percent of the total capital. The joint venture will operate for 40 years. (Hanoi Voice of Vietnam 2300 GMT 12 May 94)

First Quarter Industrial Output Up 12.1 Percent

Industrial output in the first quarter increased 12.1 percent over last year. Increases were recorded in the central state-owned sector of 13.7 percent; in the local state owned-sector of 10.5 percent; and in the non-state sector of 9.7 percent. Most key industries posted a higher growth rate than in the first quarter of last year. Industries showing higher growth rates included electricity with 9.6 percent; coal with 4.3 percent; crude oil with 20.8 percent; and cement with 15 percent. The success was mainly due to stable prices. The electricity supply to southern provinces was improved and more foreign outlets have been found for products, with new orders from the EC, CIS, and some African countries. However, industrial production is still faced with a lack of investment capital. Some sectors lack floating capital due to unsold products and contraband goods. At the end of April 12,000 metric tons of paper and 11,600 metric tons of steel were sitting in warehouses. (Hanoi VNA 0644 GMT 25 May 94)

Indian, French Firms To Build $40 Million Cement Plant

India's JK Cement Works, part of the JK Synthetics group, will set up a cement plant in Vietnam. The plant's capacity will be 1,200 metric tons per day and will be built in collaboration with France's Lafarge Coppee. The total project cost is $40 million, which will be funded by the Asian Development Bank. Lafarge Coppee and a local Vietnamese partner will operate the plant. JK will ship close to $20 million worth of equipment--including most of the machinery and instrumentation--from India. In addition, JK will net another $5 million for providing manpower, castings and pressure parts, which will come from local sources. Work

on the project is expected to start late this year. (Delhi THE ECONOMIC TIMES 20 May 94 p 8)

Proton To Assemble Cars in SRV

The Malaysian car manufacturer Proton has received approval for the import, assembly, and sales of cars in Vietnam. Proton said that the SRV State Committee for Cooperation and Investment [SCCI] approved a joint venture between itself, Mitsubishi Corporation, and Mitsubishi Motors Corporation (Japan) and a local Vietnamese company, Vietranscimex. The SCCI approved the project at the end of April and registration procedures for the company, Vina Star Motors Corporation, are to be completed in May. Operations are scheduled to begin in March 1995. Proton will hold a 25 percent stake--$4 million in legal capital--in Vina Star with the remainder equally shared among Mitsubishi Corp., Mitsubishi Motors, and Vietranscimex. The project in Ho Chi Minh City will have a total investment value of $50 million. (Kuala Lumpur NEW STRAITS TIMES 14 May 94 p 15)